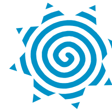

INTEREST RATES AND LOAN PORTFOLIO PERFORMANCE IN COMMERCIAL BANKS.

A case study of Centenary Bank Entebbe Road Branch (Uganda).

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NAKAYIZA STELLA KAGGWA: INTEREST RATES AND LOAN PORTFOLIO PERFORMANCE IN COMMERCIAL BANKS. A case study of Centenary Bank, Entebbe Road Branch Uganda

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ABSTRACT

The study was about the contribution interest rates have on loan portfolio performance in commercial banks, the study focused on Centenary Bank, Entebbe road branch. The study was based on three objectives that is; To examine how Centenary Bank has ensured that the bank’s loan portfolio has been maintained within acceptable limits to enhance performance, To examine how the bank has ensured compliance with regulatory requirements to enhance its performance, and To examine how the bank has worked out problem loans, including rescheduling and restructuring so as to enhance its performance

A sample of 73 respondents of Centenary Bank, Entebbe road branch was contacted. The study employed a case study research design and the methodology used in this study was both qualitative and quantitative. Questionnaires and documentary review were the major tools of data collection.

The study findings indicate that although Centenary Bank has tried to follow procedures and regulations in administering credit, there is still clients’ defaulting on loan repayments and increasing the effect of bad debts in the bank. This has created risk in loan portfolio performance and has affected profitability. The findings further revealed that there is lack of effective analysis on the impact of increasing interest rates on loan repayment trends. The researcher recommends that; there is need for an effective loan portfolio management which begins with oversight of the risk in individual loans. Economic trends need consideration before deciding interest rates on loans. Fair interest rates favour clients’ willingness to repay affordably. There is need for adequate loan review policies and strict enforcement to credit officers who issue credit without following the credit policies of the bank.

A continuous improvement in internal controls is a requirement to enforce compliance with policies and regulations. All these should be directed to benefit the Bank and Clients for the purpose of increasing loan utilization and effective loan portfolio performance, involving more responsible clients who respect and meet their obligations.

Key words: Interest rates, Loan portfolio performance, Bank of Uganda regulatory framework, Centenary Bank credit policies.

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ABBREVIATIONS.

BOU	Bank of Uganda.
LPM	Loan Portfolio Management
CERUDEB	Centenary Rural Development Bank.
CRB	Credit Reference Bureau
FIA	Financial Institutions Act.
FCS	Financial Card System
GDP	Gross Domestic Product
ITL	Inflation Targeting Life
MDIs	Micro Deposit taking Institutions
NFC	Near Field Communications
PIs	Participatory Institutions

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1 INTRODUCTION

This study is about Interest rates and loan portfolio performance in commercial banks in Uganda. It will focus on Centenary Bank, Entebbe Road branch. Centenary Rural Development Bank is a commercial bank in Uganda that provides deposit, credit and money transfer services. Established by the Catholic Church of Uganda as a trust fund in 1983, it developed strength in savings mobilization and as a result Centenary Rural Development Trust was transformed into a commercial bank in 1993 with a mission of providing appropriate financial services to all Ugandans in a sustainable manner.

This study examines the role of lending interest rates on the loan portfolio performance in commercial banks in Uganda. It focuses on Centenary Bank, Entebbe Road Branch in Kampala City centre. The study specifically looks at how Centenary Bank has ensured that the bank loan portfolio is maintained within acceptable limits; examine how the bank ensures compliance with regulatory requirements and how the bank has works out problem loans including rescheduling and restructuring for better performance. The study considered Centenary Bank loan portfolio operations from the year 2009-2012. Although references were made for the previous periods, for comparative purposes; inquiries were done to cover pre-study periods.

1.1 Background

According to Saurina (2005), interest rate is a rate which is charged or paid for the use of money. An interest rate is often expressed as an annual percentage of the principal. It is calculated by dividing the amount of interest by the amount of principal. In general, interest rates rise in times of inflation, greater demand for credit, tight money supply, or due to higher reserve requirements for banks. A rise in interest rates for any reason tends to lessen business activity because credit becomes more expensive and the stock market because investors can get better returns from bank deposits or newly issued bonds than from buying shares.

According to Ddumba (2011), ever since Bank of Uganda increased the Central Bank Rate to a staggering 23% from 13% in 2010, banks have taken advantage of

the situation and hiked their prime lending rates accordingly. Business Sense has exclusively learnt that Stanbic Bank increased its lending rate to 34%, Centenary Bank from 19% to 23%, Crane Bank from 23% to 28%, dfcu bank from 23% to 27%, Standard Chartered from 18% to 34%, Barclays Bank from 17.5% to 30% and KCB from 18% to 28%.Centenary Rural Development Bank is a commercial bank that offers economically disadvantaged people- the enterprising poor, not the poorest of the poor, in Uganda a full range of financial services, comprising savings, credit and money transfer. The reason for Choosing Centenary Rural Development Bank was due to the fact that it is the largest Micro finance bank with a customer base of over 420,000 customers and borrowers numbering about 50,000 (The New Vision, 2004:4). The bank has 39 branches and 78 ATM's country wide. The banks mission is to provide appropriate financial services especially microfinance to all people in Uganda, particularly in rural areas, in a sustainable manner and in accordance with the law. Established with the major objective of providing financial services to all Ugandans with a special focus on the rural poor, the bank has grown rapidly into a fully-fledged commercial bank and not only does it provide a micro loan to rural poor, but has also diversified its operations into the commercial and corporate sector.

It is important to study Centenary Bank Entebbe Branch because the prevailing interest rates, arrears management and loan loss prevention are crucial factors in its lending policies since such factors have an impact on cost covering interest rates, outreach and profit. Because Centenary bank measures arrears in terms of portfolio-at-risk: the outstanding balance of loans with late payments over loans outstanding as one of the stringent measures, the single most important element in its financial technology is a system of daily loan tracking backed by the staff and customer incentives. Functionally tied to the incentive system, it is one of the most impressive features of Centenary bank.

CERUDEB has a loan portfolio of Shs 55 billion and 790,000 deposit accounts with over 300,000 loan accounts. According to CERUDEB credit policies and procedures manual (2006), the bank was set to achieve the following objectives:

1. To ensure that the bank's loan portfolio has been maintained within acceptable limits.

2. To ensure compliance with regulatory requirements.

3. To ensure that the bank works out problem loans, including rescheduling and restructuring.

This study will examine whether the above objectives are being achieved in centenary rural development bank.

1.2 Research questions, objectives and scope

The following are the objectives of the study:

1. To examine how Centenary Bank has ensured that the bank's loan portfolio has been maintained within acceptable limits to enhance performance,

2. To examine how the bank has ensured compliance with regulatory requirements to enhance its performance,

3. To examine how the bank has worked out problem loans, including rescheduling and restructuring so as to enhance its performance.

The study was guided by the following research questions:

1. How has Centenary Bank ensured that bank loans portfolio is maintained within acceptable limits?

2. How has Centenary Bank ensured compliance with regulatory requirements?

3. How has Centenary Bank managed the rescheduling and restructuring of its problem loans?

4. Loan portfolio performance.

One of the inherent limitations in survey research is the subjectivity of each respondent no matter how carefully written or completely tested, each survey is vulnerable to differing interpretations of the questions. However the researcher may also face the following challenges:

- Time – ample time will be required to be able to collect, analyse and present the required information. Although a sample will be used to manage time.
- Finance – there may also be shortage of finances, since the school doesn't sponsor the project as such may not be able to meet all expenses related with the field study adequately.

However, since the study is to be a survey research, the limitation will be recognized and accepted. The other limitations may be; some respondents answering questions as a result of defensiveness, apathy or ignorance on particular aspects. This study will however be diverse enough to derive some significant conclusions with regard to the role of interest rates and bank loan recovery within Commercial Banks in Uganda.

1.3 Knowledge base of the research

According to the bank's annual report 2012, Centenary Bank was started in 1983 as a credit trust, that is, centenary rural development trust by the catholic diocese and it begun to provide financial services in 1985. Centenary Bank was started as an initiative of the Uganda National lay apostolate in the early 1980s designed to promote a range of appropriate financial services to the rural population in Uganda. Centenary Bank was created as micro finance institution to serve the rural poor and to contribute to the overall economic development of the country.

Centenary Bank was later registered as a full service commercial bank in 1993. As of December 2012, Centenary Bank is the 5th largest commercial bank in Uganda, with an asset base estimated at US$222 million, representing approximately 7.3% of all bank assets in the country. Centenary Bank is the largest indigenous Ugandan bank.

Centenary Bank has its headquarters in Kampala. As of February 2009, the bank is in the process of building permanent headquarters, Mapeera House, on Kampala Road opposite City Square. Centenary Bank has a network of over sixty (60) bank branches in central, western, northern and eastern Uganda. The bank boasts of over 780,000 deposit customers and over 290,000 loan accounts. Centenary Bank has the second largest branch network in Uganda, behind Stanbic Bank (Uganda) Limited (Bank of Uganda, 2013).

The majority of the bank's branches are in rural areas. The branches of the bank include the following locations: Arua, Bugiri, Fort Portal, Gulu, Hoima, Ibanda, Ishaka, Jinja, Kabale, Namirembe Road, Kasese, Kiboga, Kitgum, Kyenjojo, Kyotera, Lira, Luweero, Mbale, Mbarara, Masaka, Amber House, Entebbe Road, Kampala Road, Mapeera House, Nakivubo Road, Mityana, Mukono, Nebbi, Ntungamo, Rukungiri, Soroti, Tororo, Wakiso, and Wobulenzi (Annual Report, 2012).

The study may provide empirical evidence on how bank credit policies influence loan portfolio performance. The findings of this study may be used by the respective banks stakeholders to understand the importance of the Credit management in commercial banks;

a) Management of Centenary Bank

The findings of the study may help management identifying potential risks rising out of the banks prevailing lending rates and their impact on loan portfolio performance in order to strengthen its internal control system and design. This may balance and contain overall loan portfolio risk by anticipating and controlling exposure to various identified markets, customers and operational conditions.

b) Academicians and professionals

The study findings may also be of practical significance to both academicians and general practitioners by providing a better insight into the understanding of the

role credit management in mitigating credit risk to avoid losses in commercial banks. The findings may also add to the pool of knowledge on the shelves of university libraries and act as a ground for further research in the same areas.

d) Employees

The study findings may help employees to be in better position to adhere to loan portfolio management policies and procedures to avoid fraud, defaults and job negligence that result into incurring losses in the bank so as to improve performance.

e) Customers

The findings may help customers of Centenary bank be more responsible and comply with the agreements of borrowing by providing the authentic documents and making payments as agreed to help the bank reduce losses that result from loan defaulters.

1.4 Research approach

The author used both secondary and primary data as data sources. To ensure a reasonable degree of accuracy, self-administered questionnaires were issued to the selected sample with questions derived from the bank's loan regulatory memo that are issued to loan officers and credit policies of the bank. The questions based on the day to day credit policies and regulations that all employees are familiar to, and hence they could easily relate to them.

1.5 Structure of the research report

The research report contains eight chapters. Chapter one contains the introduction, chapter two contains study literature, chapter three explore the methodologies employed in the study. Chapter four explains how Centenary Bank has ensured that bank loan portfolio is maintained within acceptable limits to enhance its performance; examines how Centenary Bank has ensured compliance with regulatory requirements; explains how Centenary Bank has managed its problem

loans including rescheduling and restructuring to enhance its performance; and presents the ways and means of strengthening loan portfolio management in Centenary Bank, Jinja branch. Chapter five focuses on summary, recommendations, and conclusions.

2 LITERATURE REVIEW

Lending is the principal business activity for most commercial banks. The loan portfolio is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to a bank's safety and soundness. The level of interest risk attributed to the bank's lending activities depends on the composition of its loan portfolio and the degree to which the terms of its loans (e.g., maturity, rate structure, and embedded options) expose the bank's revenue stream to changes in rates. (Comptroller's hand book, 1998: 9)

Effective management of loan portfolio and credit function is fundamental to a bank's safety and soundness. Loan portfolio management is the process by which risks that are inherent in the credit process are managed and controlled. Good loan portfolio managers have concentrated most of their effort on prudently approving loans and carefully monitoring loan performance.

All banks need to have basic loan portfolio management principles in place in some form. This includes determining whether the risks associated with the bank's lending activities are accurately identified and appropriately communicated to senior management and the board of directors, and, when necessary, whether appropriate corrective action is taken (Comptroller's hand book, 1998: 6)

2.1 Banking sector in Uganda.

Uganda's financial system is composed of formal institutions that include banks, microfinance Deposit-taking institutions, Credit institutions, Insurance companies, Development Banks, Pension Funds and Capital Markets; the semi informal institutions that include savings and Credit Cooperative Associations (SACCO) and the other Microfinance institutions, whereas the informal ones are mostly village savings and loans associations. Formal institutions are less prominent in rural areas than urban areas, only serving 14% of the rural population. Informal institutions play an important role in the rural service provisions being that they serve approximately 12% of the rural population (ABC Capital Bank, 2012).

These numbers indicate that Uganda's financial system is still quite shallow. With regard to access to finance, approximately 62% of Uganda's population has no access to financial services. The number of the population holding accounts in banks is 4 million which is 33% of the 12 million who are bankable thereby leaving the savings to GDP ratio low at 16%. In addition, the financial intermediation as indicated by the stock of private sector credit is so poor at about 11.8% of GDP (ABC Capital Bank, 2012).

Bank of Uganda (BOU) is the Central Bank of the Republic of Uganda. It was opened on the 15th of August 1966. It is 100% owned by the government of Uganda though, however, it is not a government Department. Bank of Uganda works and conducts all its activities in close association with the ministry of Finance, Planning and Economic Development. The primary purpose of the Bank is to foster price stability and a sound financial system. Together with other institutions, the bank also plays a pivotal role as a centre of excellence in upholding macroeconomic stability within the country (Bank of Uganda, 2013).

The banking sector in Uganda underwent significant restructuring in the early 2000s, several indigenous commercial banks were then declared insolvent, taken over by the central bank and eventually either sold or liquidated. Therefore in the passage of the banking bill of 2004 in parliament new banking institution classification guidelines were established. The moratorium on new banks was lifted in July 2007 and during the eighteen months of lifting the moratorium new commercial banks were licensed. During 2008 and 2009, several existing banks went on an accelerated branch expansion either through mergers and acquisition or through new branch openings and this was recorded to be the highest growth in the years. As far as October 2012, there were 24 licenced commercial banks in Uganda, with nearly 500 bank branches and a total of almost 600 automated teller machines (Bank of Uganda, 2013). Table 1 shows the market share and assets allocation among the most popular operational Ugandan Commercial Banks as of December 2012.

RANK	BANK	ASSETS (USD) MILLIONS	MARKET SHARE	NUMBER OF BRANCHES.
1.	Stanbic Bank	1,213	19.9%	91
2.	Standard Chartered Bank	965	15.8%	12
3.	Barclays Bank	496	8.2%	46
4.	Crane Bank	469	7.7%	28
5.	Centenary Bank	442	7.3%	62
6.	DFCU Bank	394	6.5%	30
7.	Citibank Uganda	300	4.9%	01
8.	Bank of Baroda	279	4.6%	14
9.	Housing Finance Bank	191	3.1%	16
10.	Bank of Africa	178	2.9%	33
11.	Orient Bank	176	2.9%	16
12.	Equity Bank	135	2.2%	44

Table 1: Assets and Market share among some commercial Banks in Uganda

Source; Financial Report 2012

2.1.1 Regulatory framework.

According to the Bank of Uganda Annual Supervision report (2011:7) in the year 2011, the banking sector continued to show a significant growth, and within the time new innovative products were introduced. In response to these developments, the Bank of Uganda initiated changes to the financial sector regulatory framework and anticipated in the strengthening of coordination between regulators at the regional level. The overview of regulatory framework;

a) The regulatory framework of the banking sector in Uganda is fully governed by the Bank of Uganda. The Bank of Uganda is solely responsible for supervising, regulating, controlling and disciplining all financial institutions (Section 5 (2) (j) Bank of Uganda Statute, 1993).

b) The Financial Institutions Act 2004 governs the regulations and supervision of financial institutions (banks and credit institutions) whereas the Micro-Finance Deposit-Taking Institutions Act 2003 governs the regulation of micro-finance institutions.

c) The implementing departments are in the Supervision Function of the Bank of Uganda whose mission is aimed at creating a sound, safe and stable financial system/sector.

The regulatory framework for financial institutions is underpinned by 9 implementing regulations that is to say; licensing, capital Adequacy Requirements, Credit Classification and Provisioning, Limits on Credit Concentration and Large Exposure, Insider-Lending Limits, Liquidity, Corporate Governance, Ownership and Control and Credit Reference Bureaus gazette in 2005.

(Chapter 51, Section 39 (1) The Bank of Uganda Act) In order to control credit and interest rates, the Bank of Uganda may, in consultation with the minister responsible, by statutory instrument, prescribe the following:

a) the maximum amounts of investments, loans, advances and bills and promissory notes discounted, whether applied in total or to any specified

class or classes which each financial institution may have outstanding during the period that may be specified by the bank;

b) the purpose for which loans and advances may be granted and the class of business underlying investments and bills and promissory notes discounted;

c) the maximum period of loans and advances and the type and the minimum amount of security which shall be required and the maximum tenor of bills and promissory notes discounted;

d) the maximum or minimum rates and other charges which in the transaction of their business financial institutions may pay on any type of deposit or other liability and impose on credit extended in any form;

e) the maximum charges which in the transaction of their business may impose on any banking transaction.

The Bank of Uganda Act further states that any prescription made under Section 39 (1), shall have regard to commitments which the financial institutions may have entered into with their customers at the time of coming into force of the statutory instrument and that the instrument will not have discrimination of any kind to any financial institution. However, if a financial institution contravenes any prescription made, it shall be liable to pay on being called to do so by the bank, a fine not exceeding one million shillings.

Financial Consumer Protection Guidelines were issued and circulated to commercial banks and credit institutions. The guidelines aim to promote fair and equitable financial services practices, and apply to all financial service providers regulated by Bank of Uganda as well as their agents in respect of business conducted in Uganda. There are plans to draft other implementing regulations to cover reporting requirements from banks to the Central Bank, internal audit, mergers and acquisitions, and prompt corrective actions (Bank of Uganda Annual supervision report, 2011:7).

2.1.2 Credit Reference Bureau in Uganda.

Following the bank failures of 1998-1999 which resulted into the closure of five commercial banks, BOU embarked on a comprehensive review of the legal, regulatory and supervisory framework in order to enhance its capacity to fulfill the statutory mandate of fostering a sound financial system that guarantees safety of depositors' funds (Bank of Uganda Annual supervision report, 2012:22)

According to the Annual Supervision Report (2012), the Bank of Uganda introduced a Credit Reference Bureau (CRB) Services for easy information asymmetry between lenders and borrowers. The CRB ensures; timely information and accurate information on borrowers' debt profile and repayment history since experience has revealed that when financial institutions compete with each other for customers, multiple borrowing and over- indebtedness increases loan default unless the financial institutions have access to databases that capture clients' borrowing behavior; an improved pool of borrowers across the globe; reduced default rates as borrowers seek to protect their reputation collateral by meeting their obligations in a timely manner. The CRB has enhanced a strong motivation for clients to repay their loans since credit reports include both positive and negative information that help in building reputation collateral in the same way as a pledge physical collateral which may improve credit access for the poorest borrowers.

The Credit Reference Bureau (CRB) in Uganda was launched on 3rd December 2008 by the Governor of Bank of Uganda Mr. Emmanuel Tumusiime Mutebile, according to the Credit Reference Bureau Team (n.d). It was a key milestone in the history of Uganda Credit Industry. The CRB launch was preceded by a lot of deliberation and was eventually mandated by the passing of key legislation namely the Micro Deposit taking Institutions Act2003 (MDI Act) and the Financial Institutions Act 2004 (FIA). The FIA mandates the Central Bank, its appointed agent or any other appointed persons authorized by the Central Bank to establish a CRB for purposes of disseminating Credit Information amongst BOU regulated Financial Institutions also called Participatory Institutions (PIs).

According to Mutebile (2008) the absence of a CRB in Uganda had been a major bottleneck to the expansion of the volume of private sector credit. Indeed, Uganda firms-large, small and medium enterprises consistently cite limited access to credit as one of the greatest barriers to their operations. Up to now, the infrastructure for information sharing and unique borrower identification has been non-existent. The Participating institutions (PIs) (commercial Banks, Credit Institutions and Microfinance Deposit-taking Institutions) had no way of checking and sharing information on the credit history of borrowers. Therefore, PIs have continuously been exposed to high credit risk on account of increased cost of borrowing, thereby making credit more expensive than it would otherwise have been.

BOU in its mandated responsibility supervises the operations of the CRB and FCS to ensure that the information collected is managed securely and responsively at all times and in accordance with the agreement which signed with Compuscan. BOU has issued Guidelines for the operation of the CRB. The Guidelines specify the standards that the CRB shall implement in order to ensure a reliable mechanism to process data (Mutebile, 2008).

According to the Statutory Instruments 2005 No.59, section 20, a credit reference bureau shall;

a) Implement strict quality control procedure in order to ensure the quality of its database and the continuity of its services;

b) Utilise the information collected solely for the purposes set out in these Regulations;

c) Provide authentic, legitimate, reliable, accurate, truthful and current information that reflects the existing situation of the holder at any given time if the information is found to be illicit, inaccurate or no longer valid, the credit reference bureau shall promptly take the corrective measures necessary to remedy the deficiencies;

d) Provide to the Central Bank, unrestricted access to all the information managed by the credit reference bureau, whether through access to its

systems according to published services, or in the manner stipulated by the Central Bank, for the purpose of supervision; and

e) Observe, through its shareholders, directors and officers, a perpetual duty of confidentiality with regard to the information divulged to them by financial institutions and MDIs.

However according to Statutory Instruments 2005 No. 45, section 6(2-7) states that; (2) A loan or credit accommodation to a financial institution's affiliates, associates, directors, officers, persons with executive authority, substantial shareholders or any of their related persons or group of related persons or their related interests shall;

a) be granted on non-preferential terms;

b) not in the aggregate, exceed 20% of the lending institutions' core capital; and

c) at all times, be secured by collateral having market value of at least 120% of the outstanding amount of the accommodation throughout its term;

(3) The collateral required in sub regulation (2) (c) shall be assigned to the financial institution and shall at all times be enforceable and realizable;

(4) Aggregate loans or credit accommodations to any one employee, including an executive director of a financial institution, shall not exceed his or her two years' salary, except that this prohibition shall not apply to secured loans used to finance the purchase or construction of a primary residence, which may aggregate up to three the annual gross salary of the concerned employee or executive director;

(5) A financial institution shall not grant any loan or credit accommodations to any of its officers, including an executive director, while any other loan to that person is nonperforming;

(6) Loans or credit accommodations to a nonexecutive director and his or her related interests shall not exceed 2.5% of financial institutions core capital;

(7) A financial institution shall not purchase a nonperforming or low quality asset from any of its affiliates and associates, directors, persons with executive authority, substantial shareholders or from any of their related persons or related interests.

The Statutory Instrument Supplement to The Uganda Gazette 2005 further highlights the regulatory requirements for financial institutions on limits on credit concentration and large exposures. The requirements include; single borrower's limits; limits on loans to financial institutions in Uganda; aggregation of credit facilities to persons with a common interest; limits in aggregate large exposures; placements; reporting and computation of credit concentrations and large exposures and transitional provisions.

2.2 Loan Portfolio Performance.

According to the Financial Dictionary (n.d), portfolios are loans that have been made or bought ad are held for repayment. Loan portfolios are the major asset of banks, thrifts, and other lending institutions. The value of a loan portfolio depends not only on the interest rates earned on the loans, but also on the quality or like hood that interest and principal will be paid.

The loan portfolio is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to a bank's safety and soundness. The level of interest risk attributed to the bank's lending activities depends on the composition of its loan portfolio and the degree to which the terms of its loans (e.g., maturity, rate structure, and embedded options) expose the bank's revenue stream to changes in rates. (Comptroller's hand book, 1998:6).

Effective management loan portfolio and credit function is fundamental to a bank's safety and soundness. Loan portfolio management is the process by which risks that are inherent in the credit process are managed and controlled. Good loan portfolio managers have concentrated most of their effort on prudently approving loans and carefully monitoring loan performance.

All banks need to have basic loan portfolio management principles in place in some form. This includes determining whether the risks associated with the bank's lending activities are accurately identified and appropriately communicated to senior management and the board of directors, and, when necessary, whether appropriate corrective action is taken (Comptroller's hand book, 1998).

Loan portfolio management (LPM) is the process by which risks that are inherent in the credit process are managed and controlled. Because review of the loan portfolio management process is so important, it is a primary supervisory activity. Assessing LPM involves evaluating the steps bank management takes to identify and control risk throughout the credit process. The assessment should focus on what management does to identify issues before they become problems (Comptroller's Hand Book, 1989:1).

Specific measurable goals for the portfolio are established by loan portfolio objectives. They are an outgrowth of the credit culture and risk profile (Comptroller's Hand Book, 1989:13). The board of directors must ensure that loans are made with the following three basic objectives in mind:

- To grant loans on a sound and collectible basis.
- To invest the bank's funs profitably for the benefit of shareholders and the protection of depositors.
- To serve the legitimate credit of their communities.

Banks require that senior management and the board of directors to develop medium- and long- term strategic plans to meet objectives for the loan portfolio. These strategies should be consistent with the strategic direction and risk tolerance of the institution. They should be developed with a clear understanding of their risk/reward consequences. They should be reviewed periodically and modified as appropriate.

Loan portfolio performance, on the other hand, refers to the rate of profitability or rate or return of an investment in various loan products thus broadly, it 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 loan products on the chain. The loan products may comprise of; Salary loans, Group guaranteed loans, Individual loans and corporate loan (Puxty et al, 1991).

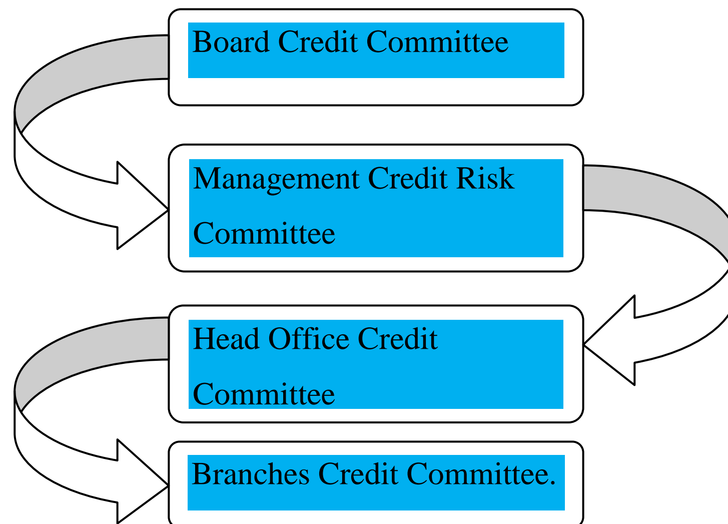
Since one of the main tasks of commercial banks is to offer loans and their main source of risk is credit risk, that is, the uncertainty associated with borrowers' repayment of these loans. A non- performing loan (NPL) may be defined as a loan that has been unpaid for ninety days or more (Greenidge and Grosvenor, 2010). Such loans unpaid affect the bank loan portfolio performance. For effective loan portfolio performance banks should pay attention to several factors when providing loans in order to curtail the level of impaired loans (Khemraj and Pasha, n.d: 23). Specifically, commercial banks need to consider the international competitiveness of the domestic economy since this may impair the ability of borrowers form the key export oriented sectors to repay their loans which in turn would result in higher nonperforming loans. These lending institutions should also take the performance of the real economy into account when extending loans given the reality that loan delinquencies are likely to be higher during periods of economic downturn. Finally, banks should constantly review the interest rates on loans since loan delinquencies are higher for banks which increase their real interest rates.

2.3 Lending policies in Centenary Bank.

In addition to the regulations set by the central bank, Centenary Bank also forms inside credit risk regulations, to guide the loan officers, which aim at reducing the bank's credit risk as a whole. According to the bank's annual report 2012, comprehensive resources, expertise and control are in place to ensure efficient and effective management of credit risk. The report illustrates that credit risk arises through non-performance by counter-party for facilities used. Facilities are typically loans and advances, including the advancement of securities and contracts to support customer obligations (such as letters and guarantees). The credit risk is managed by means of a governance structure with clearly defined

mandates and debated authorities. The Board risk committee delegates authority to the management credit risk committee for approval of credit proposals. The management further delegates authority within its limits, primarily on a risk adjusted basis as illustrated below in Figure 1;

Figure 1; Decision flow on advancing loans in centenary bank.



Source; Annual Report 2012.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Asset and Liability Committee sets limits on the level of mismatch of interest rate re -pricing that may be undertaken, which is monitored monthly (Annual Report, 2012).

Centenary Bank's interest rates are derived from the Bank of Uganda interest rate set at the time of advancing loans. The branches, however, get the interest rates to be applied form the Head Office and therefore are not involved in taking the decision per say. In Uganda, interest rate decisions are taken by the Bank of Uganda and it is reported by the same to all commercial banks. The rate is set independently by the Bank, depending on its forecast of the future inflation and other economic variables like estimate of growth of real economic activity, to

influence lending behavior of commercial banks so as to foster stability and a sound financial system (Bank of Uganda Act, 2000).

2.3.1 Maintaining loan portfolio quality in acceptable limits

According to the Centenary bank Credit policies and procedures (2005: 25) states that, for effective recovery/ monitoring of loans; all outstanding loans in the portfolio shall be closely monitored with the aid of the computer system. Reports generated by the system on a daily, weekly and monthly basis will be used by the branch management and Head office for monitoring and control of the arrears rate, and general quality of the leading business. The branch loan committees shall hold recovery meetings at least twice a month to review all loans in arrears on each loan officer's portfolio. The details for each meeting shall be recorded by the credit Administrator and filed for reference in subsequent meetings.

A loan Officer is fully responsible for the follow up and recovery of all loans in his or her own portfolio. Loans in arrears are to be recovered before they are more than 30 days in arrears.

After the period of 30 days has expired, more than one installment will be due and the customer will have great difficulties meeting two installments or more. Loans more than 30 days in arrears are recovered in collaboration with the Head of Department or a recovery officer (ibid: 36)

All loans in the commercial portfolio shall be continuously monitored to ensure that portfolio quality does not deteriorate. Loan officers should monitor the performance of borrowers primarily to reassure themselves that a borrower will continue to be in position to honor the terms of the loan and that the quality of our loan portfolio is within acceptable parameters (2005: 41). Monitoring is necessary for purposes of ensuring that:

- Terms of repayment are observed and any obligation complied with
- Trends and portfolio swifts are monitored

- No diversion of funds occurred
- Security values have not been eroded

The credit policies (2005: 45) asserts that, at least every month the Head of the branch Credit department shall undertake a thorough review of all loans more than 30 days in arrears and report to Head Office on the reasons for loan failure. This will be valuable feedback on the effectiveness of the bank's loan policy and procedure. In addition, special reports may from time to time be requested by head office.

2.3.2 Compliance with regulations

According to the credit policy (2005: 11-13) on restrictions and concentrations;

a) BOU regulations stipulate that aggregate loans to a single borrower or related group of the borrowers (as defined in the Financial Institutions Act) shall be limited to no more than 25% of the core capital. Whereas this requirement remains, as an Internal control mechanism to ensure that CERUDEB penetrates the Commercial/Corporate sector cautiously, the maximum amount of loan for one single individual borrower or group of related borrowers shall be limited to no more than 1 billion for new borrowers and 1.5 billion for recurrent borrowers with excellent performance. The board will consider raising the limit upon recommendation by management front time to time.

b) The bank shall comply with all regulations stipulate in the FIA 2004, notwithstanding the above internal limits

(i) The bank shall not grant or promise to grant to a single person or to a group of related persons any advance or credit accommodation which is more than 25% of its capital

(ii) Notwithstanding the above however, the Bank may grant advance or credit facility in excess of 25% but not more than 50% of its capital if the facility is self-liquidating, and its maturity or expiry does exceed three year and is adequately secured by:
   - Uganda Government Securities to be pledged to the bank
   - Fixed Deposits held by the bank

(iii) In addition to but without derogation from sub sections (a-c) above, the bank shall not have large exposures, which in aggregate exceed 800% of the total capital

(iv) Notwithstanding sub sections (a) and (b) above, the bank may grant to another financial institution an advance or credit facility:-
   - Shall not exceed fifty percent of the Bank's total capital
   - Shall not have a maturity exceeding one year
   - Shall immediately be reported to the central bank

(v) Where the advance or credit facility by the bank to another financial institution exceeds one year, it shall be secured in accordance with sub section (iii) above

(c) Advances or credit facilities to a single borrower shall mean all loans and credit accommodation made by the bank to one or more persons with common interest. A common interest shall be deemed to exist between persons for the purposes of this section if:-

(i) The exposure to those persons constitutes a single exposure because of the fact that one of them directly or indirectly exercises control over the others

(ii) Although the persons to whom the bank is exposed are different entities, they are so interconnected that if on one of them experiences financial difficulties, another one or all of them are likely to experience lack of liquidity

(iii) The persons are affiliates within the meaning of this sub section.

(iv) Those persons are related persons within the meaning of this subsection

(v) Those persons have common control

(vi) Those persons are associated within the meaning of this subsection

2.3.3 Working out problems loans and recovery

The credit policy (2005: 43) puts forward the following Work out strategies; that each problem loan is different and no routine is universally applicable. A problem loan can be resolved in any of the following ways:-

- Provide a debt restructuring/rescheduling program
- Additional collateral/guarantees
- Injection of additional funds
- Liquidation of collateral
- Liquidation of other assets
- Calling on guarantors to repay
- Arranging for joint venture partner and capital contribution
- Working with management to define problems and potential solutions
- Arranging sale of operating company to third party
- Replacing management
- Etc

2.4 Literature Survey

A literature on the role of interest rates on loan portfolio performance in indigenous commercial banks in Uganda indicates that an attempt has been made by a few researchers. Most of the studies in this respect, however, focused on Credit management and loan portfolio performance in Commercial Banks. Moreover, a few of the studies undertaken have focused on other aspects of credit risk management other than interest rates and their effects on loan portfolio performance in commercial banks.

Nakeba (2010) conducted a study on the role of credit management in the performance of indigenous commercial banks. His study was focused on Centenary Bank Entebbe road branch covering the entire staff of the branch with a sample size of 64 respondents who comprised of Managers, Accountants, Auditors, Credit and Loan officers, Banking assistants and some other bank staff as part of his study population. He mainly used self-administered questionnaires to collect the data required and this data was processed for analysis after collection with the aid of the Statistical Package for Social Scientists version 12 for purposes of data analysis. Nakeba found out that at Centenary bank, loan portfolio performance was affected through ensuring that all staff adhere to credit and loan regulations and procedures.

The findings of his study further indicated that loan committees needed to take full responsibility of overseeing the loan acquisition process and report on the portfolio progress as a measure of careful monitoring of the loan portfolio performance in the bank. The study went ahead to indicate that problem loans in centenary bank were solved through liquidation of other assets and providing a debt structure programme to guide the bank management in enhancing the bank's loan portfolio performance. Nakeba's study mostly focused on credit management but didn't test the impact of interest rates on the loan portfolio performance in commercial banks and the current study seeks to close this research gap.

Balagadde (2010) studied the role of micro-credit institutions in the provision of financial services. The study focused on Centenary Bank Mukono Branch. The set objectives were: to establish how Centenary Bank participates in the Government's poverty alleviation programme and help improve the living conditions of the rural poor through loan products in Mukono district, to establish how Centenary Bank has continued to explore ways to serve her rural customers in a better and more efficient manner and will also continue to strive to reinforce its position in rural banking in Mukono district, and to establish how Centenary Bank has ensured a banking network in its area of operation in Mukono district. A sample size of 61 respondents and the cross sectional design was used in the process of collecting analyzing and interpreting the data. The cross sectional design was preferred as the study was based on comparing performance over each

year in the study time scope. Both qualitative and quantitative data analysis methods were used. Results of the study revealed that there was: inadequate access to credit by the rural poor, the bank is more of urban based leaving the poor in rural areas underserved, the interest rate is excessively high, there is lack of collateral as required by the bank, poor communication system, a moderate customer service culture, poor management information system, poor sensitization, and a weak banking network. The researcher recommended that Centenary Bank Mukono should ensure that; all the poor access financial services, the interest rate is low, collateral requirements are minimal, there is a better communication system, strong management information system, carry out proper sensitization, and there is a strong banking system.

Mukisa (2007) attempted to study the relationships between problem loans and cost efficiency in commercial banks, using Centenary Bank as a case study. He found that, failing banks tend to be very cost inefficient, that is, located far from the best-practice frontiers. Cost-inefficient banks tend to have loan performance problems for a number of reasons; For example, banks with poor senior management may have problems in monitoring both their cost and their loans customers, with the losses of capital generated by both these phenomena potentially leading to failure. The author refers to this as the "bad management" hypothesis. Alternatively, loan quality problems may be caused by an event exogenous to the bank, such as unanticipated regional economic downturns. The expenses associated with the nonperforming loans that results can create the appearance, if not the reality, of low cost efficiency. Mukisa in his study did not look at how interest rates affect banking operations in Centenary Bank and the current study seeks to close this gap.

Loan Science (2012) has observed that loan portfolio performance enhancement can help an organization improve on its cash flows hence make the portfolio more profitable. It involves making accurate forecasts about the future performance of the portfolio and ensuring that there is proper management and monitoring of third party servicers who should ensure strict compliance with management policies.

Raghavan (2005) also observes that loan portfolio quality improvement can go as far as conducting independent credit audits to check for the status of compliance, review of risk rating and pick up warning signals and recommendation for corrective action taken with the objective of improving credit quality. He further notes that the need for credit portfolio management emanates from the necessity to optimize the benefits associated with diversification and reducing exposure to interest rate risk. There is therefore need for rapid portfolio reviews and proper ongoing system for identification of credit weaknesses in advance.

KPMG (2001) mentions that loans that get into trouble bring both direct and indirect losses to the bank, which reduces the returns on its portfolio. They further recommend that there should therefore be a sound credit management system with adequate control mechanisms like credit disbursement controls, credit audits and credit Management information systems that can guide proper credit pricing and adequate credit work outs before loan approval. Then the bank should develop a recovery strategy carefully analyzed according to the industry dynamics which involves determining the nature of the industry environment and the borrower's position within the industry, the borrowers' financial condition which involves determining the borrower's capacity to repay through cash flows, collateral liquidation, or other sources. The bank can thereafter come up with either portfolio exit where the decision not to issue credit to the prospective client is undertaken or come up with restructuring policies where a decision to negotiate for reducing the principal with the client is undertaken, once restructuring policies are undertaken, a loan loss provision should be maintained to safeguard against loan losses. Loan restructuring according to HB (2012) helps the borrower reduce his administrative burdens and improve cost effectiveness, hence being able to meet his loan obligations.

2.4.1 Interest rates

In Uganda, interest rate decisions are taken by the Bank of Uganda and it is reported by the same to all commercial banks. The rate is set independently by the Bank, depending on its forecast of the future inflation and other economic variables like estimate of growth of real economic activity, to influence lending

behavior of commercial banks so as to foster stability and a sound financial system (Bank of Uganda Act, 2000).

The problem of interest rates and loan portfolio performance is not unique in Uganda. Others outside Uganda have researched on it considerably. The interest rate aspects of loan portfolio performance are discussed based on the theoretical and practical recommendations outlined in other research works done elsewhere outside Uganda.

Saurina (2005) defines interest as the amount a borrower pays in addition to the principal of loan to compensate the lender for the use of the money while Interest rates are the expressions of interest as a percentage of the principal. Whereas interest rate is a rate which is charged or paid for the use of money, an interest rate is often expressed as an annual percentage of the principal. It is calculated by dividing the amount of interest by the amount of principal. In general, interest rates rise in times of inflation, greater demand for credit, tight money supply, or due to higher reserve requirements for banks. A rise in interest rates for any reason tends to dampen business activity (because credit becomes more expensive) and the stock market (because investors can get better returns from bank deposits or newly issued bonds than from buying shares).

Baxley (1996) noted that lending is the principal business activity for most commercial banks. The loan portfolio is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to a bank's safety and soundness. Whether due to lax credit standards, poor portfolio risk management, or weakness in the economy, loan portfolio problems have historically been the major cause of bank losses and failures. Effective management of the loan portfolio and the credit function is fundamental to a bank's safety and soundness. Piana (2002) states that the interest rate is the profit over time due to financial instruments. In a loan structure whatsoever, the interest rate is the difference (in percentage) between money paid back and money got earlier, keeping into account the amount of time that elapsed. When establishing the interest rate to the public, banks all over the world make reference to these rates (e.g. "1.5% more than Central Bank Base Lending Rate- BLR " - the famous

interbank interest rate for loans in Shillings). If the firm is a sound primary firm with excellent trustworthiness, the bank would agree an interest rate only slightly higher than the rate the same bank would be requested to pay in the inter banking market from other lending institutions. By contrast, for smaller industrial firms, the rate usually would be significantly higher because of the worsened credit risk.

Pasha and Khemraj (2010), state that the impact of real interest rates on Non Performing Loans is extensively documented in the literature. In fact, several studies report that high real interest rate is positively related to this variable. This variable is constructed by subtracting the annual inflation rate from the weighted average lending rate of each bank. Using a pseudo panel-based model for several Sub-Saharan African countries, Fofack (2005) finds evidence that economic growth, real exchange rate appreciation, the real interest rate, net interest margins, and inter-bank loans are significant determinants of Non Performing Loans (NPLs) in these countries. The author attributes the strong association between the macroeconomic factors and non-performing loans to the undiversified nature of some African economies. UNDP report (2005) confirms that the commercial banking sector in Uganda is saddled with poor loan portfolios, estimated at 36 percent of their total loan portfolios. Commercial banks have got higher percentages of insider lending and concentration of credit compared to their total credit portfolios. This has resulted in a large share of non-performing advances and subsequent failures.

Rajan and Dhal (2003) argue that whenever, a borrower commits breach of agreement in respect of repayment of schedule of the amount of loans with interest etc., we safely say that there are 'OVERDUES' in the Loan Account. Once the Loan A/c is an overdue A/c i.e. the borrower has committed default in repayment of loan amount as per the dates specified in the Agreement, then the Banker has necessarily to adopt measures which will result into recovery of overdue amounts. We now proceed to suggest certain measures to be adopted by Urban Co-op. Banks for effecting recovery of overdue amounts. Whenever the borrower commits default in repayment of loan amount, immediately the bank should serve ' Preliminary Notices' on the principal borrower and the sureties advising them to repay the amount of over dues with interest etc. Such

Preliminary Notices should invariably mention information which is of factual nature relating to: amount of loan sanctioned, date of sanction of loan, names of the sureties, amount of the loan sanctioned, and amount of over dues with interest etc. on a particular date. In addition to the above it must also be communicated the bank shall proceed to take further action against the principal borrower and sureties in case of failure to repay the amount of loan/over dues. It has been often said 'A' stitch in time saves nine'. Thus, the banker must be vigilant, right from the disbursement of loan amount till the recovery of the entire loan amount. There should be effective supervision over the amount of loan sanctioned.

Sankar (2008), Banks accept deposits for the purpose of lending. One of the most important functions of the banks is to create credit. Except in a few cases like interest on savings bank deposits and interest on export credit and interest on small loans up to Rs2 lakh which are administered (under the control of the RBI), most of the interest rates on deposits as well as loans & advances can now be freely set by the banks themselves. It is the primary duty and function of the Urban Co-op. Banks to safeguard the interest of depositors. Whenever deposits are accepted, the bank agrees and undertakes to repay the amount of deposits with interest to the depositor on maturity. The ownership of the deposit amount vests with the customer, and the custody of the deposit amount is with the Banker.

So whenever Advances and Loans are sanctioned to shareholders / members of the Bank, the Banker has to take utmost care to see that the Borrower repays the amount of loan with interest so as to enable the Banker to repay the amount of deposit with interest to the customer. It is with background, it will be clear that the banker must be vigilant about the utilization of the amount of advances and loans made to be shareholders/nominal member. If the Banker is reluctant and negligent towards recovery of loan amounts and advances, it will be very difficult for the bank to repay the amount of "DEPOSIT AMOUNTS" to the customers on maturity. Hogman (1960), states that higher interest rates raise default risk which in turn leads to lending losses. Therefore, to avoid this, unrestricted and rational lenders prefer to set loan interest rates below market clearing levels and then ration credit. Credit rationing is generally defined as a situation where the demand for loans exceeds the supply of loans at the loan interest rate determined by banks.

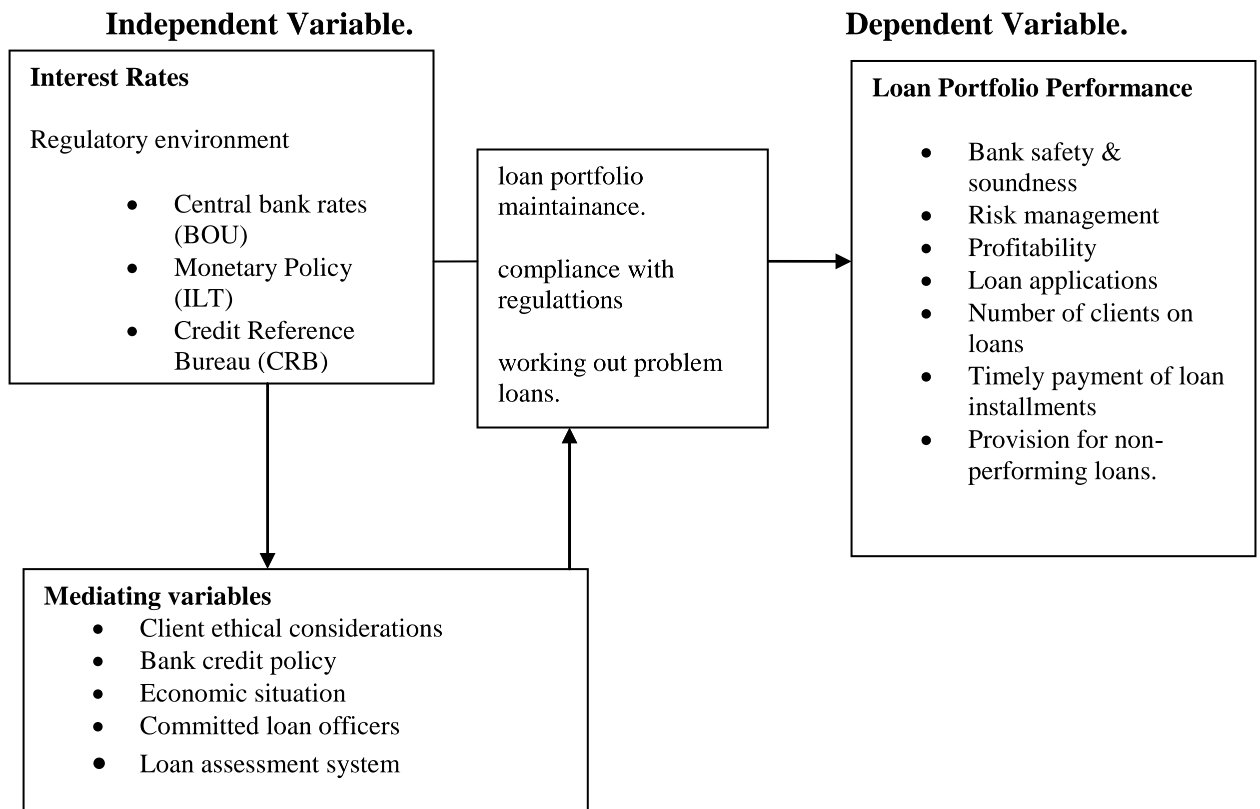
ln other words, although there is excess demand for credit at a given interest rate, banks do not respond to it by increasing loan interest rates to the market clearing level Where demand becomes equal to supply. Therefore, the excess demand is rationed by non-price criteria

Samuelson (1945) states that a portfolio loan can be a good option. Most banks will not make a fixed rate long term loan in portfolio due to the interest rate risk. You will probably find that loans may be fixed for periods from one to seven years and then they will become an adjustable rate loan. When they adjust you need to look at the maximum rate that can be charged, the loan ceiling. Next look to the maximum adjustment allowed at one time or for any one year adjustment. This will be something like two per cent over an index. The index is the rate of interest that the loan is tied to, such as the London Inter Bank Offer Rate or a district of the Federal Home Loan Bank Board rate. So, you may be looking at a loan that has a two per cent margin, two per cent over the index with a ceiling of six per cent and an annual cap rate of two per cent, the maximum adjustment allowed in any one year. This example is closely that of secondary market loans and can be offered as a portfolio product and it could be sold at a later date if desired by the lender.

2.5 Summary of Conceptual Framework

From the foregoing literature review, this study has developed the following conceptual model within which to understand issues regarding interest rates and loan portfolio performance. The independent variables were studied in terms of regulatory environment .i.e. Central bank rates (BOU), monetary policy, and credit reference bureau. The dependent variable was studied in terms of; bank safety and soundness, risk management, profitability, loan applications, number of clients on loans, timely payment of loan installments, and provision of non-performing loans. The intervening factors were considered in terms of Client ethical considerations, bank credit policy, economic situation, committed loan officers, and loan assessment system

Figure 2: Conceptual Model



Source: Researcher 2013.

3 RESEARCH CONTEXT AND METHODS

Research methodology refers to the techniques used in carrying out research work, including the theoretical and philosophical assumptions upon which the research is based (Saunders et al 2009). This chapter describes the procedures that were followed in conducting the study. These include, research design, population of the study area, sample and sampling techniques, data collection instruments, as well as the techniques that were used to analyze data. It also indicates the problems encountered in the study. The study employed quantitative methods. Quantitative research methods permit a flexible and iterative approach during data gathering while qualitative research methods try to find and build theories that explain the relationship of one variable with another. (Saunders et al, 2009) as (cited in Idaan, 2012: 28).

3.1 Research Design

The study used a case study research design and both primary and secondary researches are utilised. The case study design was used because it gives a description behind the results by capturing whatever happened and gives opportunity to highlight and bring attention to particular challenges (Neale et al, 2006:3). The design was selected because it was highly effective in bringing out results on interest rates and loan portfolio performance in Centenary Bank.

Primary research was conducted using questionnaire surveys which were sent to randomly selected sample of Centenary Bank staff specifically to meet the objectives of the study. Primary research enabled obtaining of first hand information from respondents on how the interest rates of Centenary Bank affected the loan portfolio. Secondary research was obtained from writings of various authors on similar problems related to interest rates and loan portfolio performance. The information obtained synthesised the study, highlighting key themes emerging from those studies which were applied to the current study problem.

The population of the study involved the staff of Centenary Bank- Entebbe Road branch because they have adequate knowledge on Interest rates and loan portfolio performance. Centenary Bank Entebbe branch has 90 employees ranging from administrators, credit officers, banking officers and Information technology officers etc.

3.2 Data Collection Methods.

The study obtained primary data by the use of self administered questions while review of related literature was used to collect secondary data especially from the documents kept by Centenary bank as well as from the written literature by different authors. Secondary methods helped to guarantee the authenticity of the data collected at the end.

To collect primary data, questionnaire surveys were used: they are valuable method of collecting a wide range of information from a large number of respondents and they are usually straightforward to analyse (Saunders et al 2009).

The questionnaire was built from; the Centenary Bank credit policy and procedures (2005), objectives of the study (chapter one) and literature review herein (Chapter two). Objectives and literature covered questions on variables such as; bank loan portfolio maintained within acceptable limits, compliance with regulatory requirements, working out problem loans, including rescheduling and restructuring and loan portfolio performance. These were forwarded to respondents. The self administered questionnaires approach was preferred because it is an appropriate instrument for any survey research. The questionnaire contained statements requiring the respondents to opt for one answer out of five which were designed using the likert scale.

Adequate questionnaire construction is critical to the success of a survey. Inappropriate questions, incorrect order of questions, incorrect scaling, or poor questionnaire format can make the survey valueless, as it may not accurately reflect the views and opinions of the participants, (Mugenda and Mugenda 1999).

The researcher ensured that the questionnaire was aligned to the literature to strengthen the results of the study

The questionnaires are popular because the respondents fill them at their own convenience and are appropriate for large samples. According to Amin (2005), questionnaires are popular because information can be obtained fairly, easily and the responses are easily coded.
A study certificate from the school signed by the Dean was attached to the questionnaire introducing the author as a master's student of Lahti University of Applied Sciences. A cover agreement between the researcher and the manager was attached to assure the respondents of anonymity of the data they had to provide.

The questionnaire items under different sections specific to the objectives and research questions were tested for statistical reliability based on the Cronbach alpha (a). This is important because the data collection instruments must have the ability to consistently yield the same results when repeated measurements are taken of the same individuals under the same conditions (Koul, 2004: 130). The reliability was done using the Cronbach's (1964) alpha (α) test in order to ascertain the internal consistency of the study variables. The test must yield a reliability coefficient that is greater than 0.6 or >60%. The Cronbach alpha was computed to be 0.996. The implication of this is that the study scales were reliable and consistent.

The data obtained from the respondents was doubly checked to ensure its accuracy and was processed for analysis. The data was edited, coded for completeness and processed using the Statistical Package for Social Scientists (SPSS) version 17 for the purpose of summarizing it.

3.3 Data Analysis

The primary data was analyzed using both descriptive and inferential statistical. Descriptive statistics involved the use of means and standard deviations. The researcher used the statistical Package for Social Sciences (SPSS) version 17 in

coming up with the statistical analysis for the study**.** SPSS is one of the most widely used available and powerful statistical software packages that covers a broad range of statistical procedures, which allows a researcher to summarise data (e.g. compute means and standard deviations), determine whether there are significant differences between groups (e.g. t-test, ANOVA), examine relationships among variables (e.g. correlation, multiple regression), and graph results (e.g. bar charts, line graphs) (Kirkpatrick and Feeney, 2003).

3.4 Sample selection

The study used the random sampling which involved selecting respondents from the study population by chance. The researcher used a study population of 90 staff of Centenary bank and the sample size for this study was selected basing on the criteria set according to Roscoe's rule of thumb Sekaran (2003:295) i.e. a sample that is larger than 30 and less that 500 is appropriate for most research.

The study also employed purposive and stratified sampling methods. Random sampling involved selecting respondents from the study population by chance. In this way every respondent had an equal chance of being included in the sample. Purposive sampling involved selecting a certain number of respondents based on the nature of their knowledge in credit management. This method was used to select respondents from the loan department. This method was appropriate because the sample selected comprises of informed persons who possessed vital data that was comprehensive to allow gaining a better insight into the problem. Stratified sampling involved organizing the units in the population into strata using common characteristics, in this way every person in the selected strata had an equal chance of being represented.

The sample of 73 respondents was selected, from a population of 90 respondents. All the questionnaires were filled and returned. The distribution of which is shown in table 2;

Category of respondents	**Total surveyed**	**Total respondents**	**Percent of total respondents**	**Sampling method**
Managers	8	4	5.4%	Purposive
Accountants	6	6	8.2%	Purposive/Stratified
Auditors	8	6	8.2%	Purposive/Stratified
Credit officers	31	29	34.2%	Purposive/Stratified
Tellers	25	19	26%	Random/Stratified
Others (Substitutes and interns)	12	9	17.8%	Random
Total	**90**	**73**	**100%**	

Table 2: Respondents Breakdown.

The researcher applied the following Slovin's sample formulae:

$$n = N / 1 + Ne^2$$

Where, N is the target population, n is the sample size and e is the level of statistical significance and in this study was 0.05. According to Amin (2005) a good sample for academic research is between 60 to 120 respondents. However, in a situation where the above formula is not applicable, the Krejcie and Morgan sample estimation table was also considered (Appendix B).

4 RESULTS.

This section examines the bank loan portfolio quality of Centenary Bank. The study recognises that a loan is a debt. A loan entails the redistribution of financial assets over time, between the lender and the borrower. One of the principal duties of financial institutions is to provide loans, this is typically the source of income to banks, bank loans and credit also constitute of one of the ways of increasing money supply in the economy. In order to have a good loan portfolio quality, Centenary Bank should have good portfolio management. The study used a number of self administered questions to examine the situation and the results are presented as below:

The study used self administered questionnaires and a number of questions were given to respondents through section 4.1-4.4 of this chapter. The results were summarised in SPSS using the Likert scale of 1-5 where:

Scale	Equals
1	Strongly disagree
2	Disagree
3	Not certain
4	Agree
5	Strongly Agree

The study results are discussed and presented from the highest to lowest mean output through section 4.1-4.4.

4.1 Bank Loan Portfolio maintenance within acceptable limits

On the first variable, managers and credit officers were asked whether there was bank loan portfolio quality at Centenary Bank. The results are shown in **Appendix C** table 3

The results in table 3 in **Appendix C** show that, managers noted that credit reports were not effectively forwarded to head office regularly. While 76% of the credit officers claims these are reports are forwarded regularly. It was noted that all the credit officers agreed that interest rates on loans are always reviewed to match competition and retain clients, but the managers noted delays in do this. However it was noted by managers that sometimes credit supervisors do not effectively review portfolio management reports. 89.6% of credit officers were in agreement with the managers. This negligence can lead to wrong decision making that can affect the loan portfolio quality.

It was observed that there is a complete and timely review of branch loan portfolio. This made the management to effectively know the bank position and performance at particular time in operation. However 34% of credit officers noted that sometimes the general manager delays to review the grading of loans to different clients. But there was a general agreement that, loans are reviewed and classified on quarterly basis. This implies that bank management tries as much as possible to ensure the loan portfolio makes the required profits.

The results showed that Centenary Bank follows criteria of BOU in grading loans, and the central bank rates are considered when drafting lending interest rates. It was also observed that the branch provides effective feedback while reporting to Bank headquarters on loan performance.

Managers noted that some staff handling loan portfolio lack the required relevant qualifications. Since the loan portfolio is the key asset to the bank, human resource to manage such an asset need to be experienced and competent for job performance. However noted that both managers and credit officers were certain that grading of loans starts from the date of the first disbursement

According to the Centenary bank credit policies and procedures (2005: 27), states that, all advances shall be disbursed and monitored through the Bank's loan computer system. Loans shall be closely monitored to ensure timely repayment.

Also that subsequent loans to a borrower will largely depend on the past repayment record. Loan amounts to subsequent borrowers will increase gradually overtime as a reward for good past repayment if they continue to demonstrate that they can utilize the funds for productive purposes.

For purpose of portfolio review and management, the credit policy also states that, at least every month the head of the branch credit department shall undertake a thorough review of all loans more that 30 days in arrears and report to head office on the reasons for loan failure. This will be valuable feedback on the effectiveness of the bank's loan policy procedures. In addition, special reports may from time to time be requested by head office (ibid, 2005: 45).

4.2 Compliance with regulatory requirements

This section focused on the level of compliance of Centenary Bank with the regulatory requirements. The study used a number of self administered questions to examine the situation and the results from managers and credit officers are presented in **Appendix C** table 4:

The results in table 4 in **Appendix C** revealed that, credit officers noted that there were unethical practices of issues loans to 'ghost' clients. This causes loss to the bank and it's due to weak internal controls. The managers declined that loans are sometimes issued to ghost clients. However managers and credit officers highlighted that the loan committee at the branch does not grant loans on false information provided by loan officers. But this does not mean that loan officers get the right information from clients. On the issue whether loans at the branch are applied for through fraudulent procedures, both managers and credit officers noted that the largest percentage of clients adheres to loan application procedures. In addition it was observed that the branch has loan policies and procedures, and management ensures that employees are effectively supplied and sensitized on these credit policies and procedures.

The results noted that both managers and credit officers disagreed that the branch had high credit risk due to poor portfolio management. Implying there is significant risk management system. It was also noted that the bank leading rates are not higher than those set by the central bank, implying that the bank complies with regulations of BOU and the credit reference bureau.

The result also showed that 54.9% of the respondents disagreed that the branch manager misuses authority on approving loans in respect to procedures. However 45.1% were uncertain. It was also revealed that 96.7% of respondents noted that there is suppression on loan collections. This implies that credit officer at the branch do not effectively comply with debt/loan collection requirements. This affects cash flows from loans, and can encourage default due to limited follow up. On addition managers noted that credit officers do not effectively practice standard assessment and analysis of loans. This usually leads to under or over valuation of loans.

It was also observed that 100% of the respondents agreed that the bank has rights to edit data on active loans including collateral details and that the bank has standard collateral requirements for different loan grades. This has helped to ensure adequate valuation of loans to collaterals put forward

However Centenary Bank credit policy (2005: 11) states that, BOU regulations stipulate that aggregate loans to a single borrower or related group of borrowers (as defined in the Financial Institution Act) shall be limited to no more than 25% of core capital. Whereas this requirement remains, as an internal control mechanism to ensure the Centenary bank penetrates the commercial/corporate sector cautiously, the maximum amount of loans for one single individual borrower or group of related borrowers shall be limited to no more than 1 billion for new borrowers, and 1.5 billion for recurrent borrowers with excellent performance. The board will consider raising the limit upon recommendation by management from time to time.

The policy on p.25-26 also states that, one of the primary reasons for the bank to develop and maintain loan policies and procedures is to manage and minimize the risk from making losses. Therefore, it is important that loan officers and managers adhere to credit policies and procedures when engaged in lending activities.
If an individual employee, or employees in combination, constantly fail to follow these policies and procedures, or fail to adhere to certain critical procedures, they risk being suspended, interdicted, or terminated from employment with the bank.

4.3 Working out Problems loans and Loan Recovery

This section examined how Centenary Bank works out problem loans and loan recovery. A problem loan comes as a result of a client failing to repay a loan. To recover problem loans certain procedures should be taken on for example rescheduling and restructuring of loans, but the decision to reschedule a loan should be taken by the loans committee whose members authorize rescheduling by signing the newly printed committee summary.

The study used a number of self administered questions to check whether the Bank works out problem loans including rescheduling and restructuring of loans for effective performance in the bank and the results from managers and credit officers were as presented in **Appendix C** table 5.

The findings in table 5 in Appendix C shows that 100% respondents of the respondents agreed that clients with difficulty in loan payments are usually given an extension period on request. It was also observed that 54.8% of the respondents disagreed that collaterals used to acquire loans are used for payments of problem loans. This means that such collaterals can only be reached if a client has been declared a defaulter or cannot payback. In addition respondents were asked whether guarantors normally payments off loans of the defaulters. Managers disagreed, implying that many guarantors are never willing to pay for defaulters.

The results also noted that 83.8% of the respondents were in agreement that the loan committee was entirely involved in loan rescheduling at Centenary bank.

However it was also revealed that 58% of respondents disagreed that loans are not restructured more than twice. This means that the banking restructures loans as many times as possible.

The results also showed that managers are of a view that the credit risk management system is still lacking. And 37.9% of the credit officers were in support of the manager's view. This means that bank management should ensure more risk measures are in place. In addition the respondents were not sure whether the internal controls greatly contributed to effective loan repayments. Managers also noted that the internal controls are still inadequate.

The findings showed 96.7% of the respondents noted that interest rates are not periodically structured to improve on loan portfolio profitability. This indicates that the economy is stable, and there is no immediate need to increase interest rates regularly.

The results of showed that 67.7% of the respondents were in agreement that senior managers periodically received detailed reports on the existing loan problems, so as the finding suitable solutions. In addition respondents were asked whether the bank effectively insures the loans, and there was a 100% agreement to this effect. Insuring is one the most effective way of transferring risk and management of risk in a bank.

It was also observed that the bank takes effective legal action for non-payments of loans. It was noted that bank branch effectively complies with BOU regulations on writing off loans classified under loss (83.8% agreement). However it was noted that 70.9% of the respondents disagreed that managers in charge of loans mismanage are usually apprehended. This is serious weakness, and banks to immediately put to book any employee who mismanages the loan portfolio.

However the Centenary Bank credit policy (2005: 35) states that, loans and advances will be written off against specific provisions for loan losses once it has

become clear that the doubtful debt is not recoverable. All write-offs must be approved by the managing director, and reported to the board.

Centenary Bank will comply with BOU’s regulations and write off all loans classified under “loss'. In certain special situations, the bank might take more conservative approach and write off the loan before it reaches the ‘loss’ category .i.e. in case of obvious loss due to inadequate securities, no possible sources of repayment (ibid, 2005).

In the case of monitoring and recovery of loans, the credit policy (2005: 36) states that, a loan officer is fully responsible for the follow up and recovery of all loans in his or her own portfolio. Loans in arrears are to be recovered before they are more than 30 days in arrears.

After 30 days has expired, more than one installment will be due and the customer will have difficulties in meeting two installments or more. Loans more than 30 days in arrears are recovered in collaboration with the head of department or recovery officer.

4.4 Loan portfolio performance in Centenary bank

The study asserts that, loan portfolio performance is the means of following up and getting better loan results by understanding and carrying out loan portfolio management. For effective loan performance in the Bank, the board and management is required to understand the bank’s risk profile and credit culture. The approach is grounded in risk management, actionable data, test-and-control iterations, diverse analytic approaches and the fundamentals of consumer credit in order to benefit from the loans. To measure loan portfolio performance, respondents were presented the following questions and the results from managers and credit officers were as shown in **Appendix C** table 6;

The findings in table 6 in Appendix C showed that 93.5% of the respondents were in agreement that high interest rates have greatly caused poor loan repayment

rates in Centenary bank. In addition it was observed that the willingness for clients to repay loans depends on the interest rates charged (100% in agreement). However 80.6% of the respondents disagreed that there was a detailed procedure for screening clients for loans.

It was also revealed that loan officers are adequately rewarded on improved performance (83.9% agreement). This improves the morale of working hard when motivational incentives are extended to employees.

On the issues whether credit demand depended on prevailing interest rates, managers disagreed while 100% of the credit officers were in agreement. This implies that the lower the interest rates, the higher the demand for loans in Centenary bank.

Also respondents were not certain whether court cases had increased due to loan defaulting. 80.6% of the respondents were in agreement. However were also asked whether debt collection cost had reduced due to improvement in loan repayment by clients. 67.7% of the respondents were in agreement. Meaning that majority of the loans are to those with capacity to repay. It was noted that the financial costs from borrowing significantly affect clients' businesses and household operations (90.3% agreement); implying interest charged by the bank should be fair to enable clients' businesses to repay the loans. In addition the result revealed that 100% of the respondents agreed that some clients have lost collaterals due to failure to repay the loan after the bank increased interest rates, implying increase in interest rates affects the repayment capacity of majority of bank clients.

However it was noted by both managers and credit officers that, the bank has not lost clients to other lending institutions due to high interest rates, implying that majority of the lending institutions in Uganda relative have the same interest rates. But it was also revealed by credit officers that there has been a significant

decrease in the amount of loans acquired by clients, this implies people fear to take the risk of borrowing.

There was an 80.6% disagreement by the respondents that bureaucracy on loan approval has been reduced for efficient performance. This may be the case because credit officers must ensure that all loan applications are assessed thoroughly to avoid losses.

4.5 Discussion of the main results

Based on the results discussed above the four sections of the research that is; Loan portfolio maintenance within acceptable limits; compliance with regulations; working out problem loans and loan portfolio performance are summarized as below:

4.5.1 Loan portfolio maintenance within acceptable limits

The study findings revealed that Centenary bank adequately carries out loan grading this implies the bank keeps track of its outstanding loans with in a given portfolio, the results also revealed that although there is loan reviewing done on quarterly basis, however there is need to improve feedback on branch loan effectiveness, the bank's failure to conduct credit rating makes it susceptible to submitting invaluable reports to management making it a problem to trace and recover problem loans, this compromises the bank's loan portfolio quality and performance in terms of portfolio returns.

4.5.2 Compliance with regulations

It was also found out that the bank had a high level of compliance with the regulatory requirements of the Central bank, however, the bank undertook supra legal policies in line with the pricing of its interest rates, it was revealed that the bank had higher interest rates compared to the competition in the market. Following regulatory requirements enabled the bank to manage its loan portfolio performance since regulations provide basics for minimum acceptable standards

of loan portfolio management that mitigates credit risk that would otherwise hurt the portfolio returns of the commercial banks.

4.5.3 Working out problems loans

The results established that although Centenary bank had addressed the issue of working out problem loans and loan recovery, there were still gaps in the way the bank handled its interest rate restructuring programs which reduced loan portfolio performance. It was also revealed that some of the bank' internal control policies for minimizing credit loss were not adequately followed which made it possible to increase on the amount of problem loans.

4.5.4 Loan portfolio performance

The study results revealed that loan portfolio performance at Centenary bank was still low, this was due to the high interest rates that the bank levied on its loans which discouraged potential borrowers from obtaining the bank's loans. Furthermore, it was found that the bank lost a lot of funds in write offs and in loan recovery, although there was a well designed procedure for screening loan clients, loan default cases generally increased the number of court cases handled by the bank which means that the level of default risk increased within the bank's loan portfolio which reduced the portfolio performance.

CONCLUSIONS

Centenary Bank like any other commercial bank in Uganda is governed by the regulations of the Bank of Uganda. The BOU makes the decision of the interest rates to be used by all commercial banks based on the inflation rates at a particular time. CERUDEB, in addition to the BOU credit policies, has credit policies and regulations that govern it performances and guide the loan officers within the loan department.

The study focused on the loan portfolio quality of indigenous commercial banks, Centenary Bank in particular. The study indicated that bank loan portfolio quality can be achieved if Centenary bank carries out regular reviews of its loan portfolio management for instance constant reviews of the objectives of the Bank in regards to its loan portfolio performance, reviewing interest rate for loans in the portfolio, reviewing loan portfolio performance reports and ensuring that loans are properly graded to minimize default.

The study also discovered that compliance with regulatory requirements involves Centenary bank abiding by the rules and regulations as provided by the Bank of Uganda as well as its internal rules and regulations as regards to interest rate policies and portfolio management. The study revealed that regulatory requirements at Centenary bank were adequately followed and this was instrumental in ensuring that interest rate risk is adequately controlled under the guise of the Central Bank.

The study revealed that working out problem loans is one step towards loan recovery. It requires giving clients facing difficulty in repaying their loans periods of extension of credit repayment to enable them pay their bills. This further involves credit rescheduling and pursuing guarantors to help pay the defaulted credit. However, the study revealed that the major cause of default in credit recovery emanates from the weak internal control systems inhibited by these indigenous banks coupled with the unrealistic returns expected from their loan portfolios which force them to hike interest rates making it very hard for the customers to repay their credit.

Furthermore, the bank should develop an operating procedure for notifying branches of a customer problem borrower status and preapproval of how to apply payments should be forwarded to relevant branches by the officer handling the problem loan, otherwise all operating transactions, including application of overpayments, should be referred to the Recovery officer.

Loan portfolio performance was influenced by the extent to which the bank can recover loans from its clients and the amount of returns that the portfolio yields. However, the study discovered that this can be achieved when the bank lends at favorable interest rates such that the demand for the loans increases, the increasing demand for the loans should not however compromise bank credit management policies, the bank should ensure that the customers are adequately screened to eliminate those who cannot repay the loans, the bank credit team should also be rewarded upon attainment of the bank's loan portfolio objectives and for their exclusive performance towards the bank.

Limitations of the study

- The research was limited by the information inadequacy. The bank provided only partial information as opposed to all that was required which made it difficult to gather relevant information on time

The limitations faced in the study made it impossible to complete the whole body of knowledge about interest rates and loan portfolio management, the study therefore suggests the following areas for further study:

i. Interest rate risk and loan portfolio performance.
ii. The impact of inflationary tendencies on interest rate determination.

In order to determine the reliability of the scales, the instrument was pretested and the results are given in the table below.

No.	Section of the questionnaire	Cronbach's Alpha
1	Loan portfolio quality	.994
2	Compliance with regulations	.994
3	Working out problem loans	.997
4	Loan portfolio performance	.992
	Average	.994

Table 9: Reliability of instruments

The reliability coefficient for each of the sections above exceeds 0.9. As can be seen from table 9, the lowest was 0.992 and the highest was 0.997.The average was 0.994. The cronbach alpha was 0.996, according to Chadwick et al (1984: 250) as cited in Ehlers (2002:27) are of the opinion that reliability will be acceptable at a level of 0.6 or above, with absolute reliability of 1.0 implying that the scales on the questionnaire that were used to measure the four sections were reliable and consistent (cited in Idaan, 2012: 31)

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APPENDICES

APPENDIX 1

SELF ADMINISTERED QUESTIONNAIRE

Dear Respondents;

I am …………………………………… a student of Lahti University of Applied Sciences in Finland finalizing my Msc. International Business Management (MBA). As part of my requirement for the Degree award. I have to present a dissertation. The study is on the role of interest rates and loan portfolio performance in indigenous commercial banks, a case study of Centenary Bank, Entebbe Branch.

I am now on my field part of collecting information for this dissertation and you are being requested to respond to the various questions in the questionnaire attached. Your responses will be treated with utmost confidentiality.

I shall be grateful for your co operation in his regard.

Thank you.

SECTION A: BACKGROUND INFORMATION

1. Gender

   Male ☐

   Female ☐

2. Age group

   20-29 ☐

   30-39 ☐

   40-49 ☐

50 and above ☐

3. Marital Status

Married ☐

Single ☐

Widowed ☐

4. Department where you work

………………………………………………………………………………

5. Occupation

Manager ☐

Accountant ☐

Auditor ☐

Banking Officer ☐

Credit officer ☐

Cashier ☐

Teller ☐

Cashier ☐

Others please specify………………………………

6. No. of years working with the Bank

- 1-2 years
- 3-4 years
- 5 years and above

7. Level of Education

- Diploma

- Degree
- Masters
- PHD
- Professional certificate
- Others please specify…………………………………………

NB: For the following sections tick your level of agreement or disagreement as most appropriate to your view.

SA Strongly Agree

A Agree

NS Not Sure

D Disagree

SD Strongly Disagree

SECTION B: Bank loan portfolio quality is maintained within acceptable limits

No.	Question	SA	A	NS	D	SD
8.	Required reports are always forwarded to Head office from time to time					
9.	Loan officers always review interest rates for loans in their portfolio					
10.	Credit supervisors sometimes do not review portfolio management reports of the branch					
11.	There is a completed and timely review of the branch loan portfolio					
12.	The general manager always reviews the grading of each loan					

13.	On a quarterly basis, loans are reviewed and classified according to performance					
14.	Bank of Uganda criteria's are strictly followed when grading loans					
15.	Central Bank rates are considered when drafting lending interest rates at the branch					
16.	Centenary bank headquarters is provided with valuable feedback on the branch loans effectiveness					
17.	All officers handling the loans portfolio are qualified					
18.	Grading of loans at the branch starts from the date of the first loan disbursement					

SECTION C: COMPLIANCE WITH REGULATORY REQUIREMENTS

NO.	QUESTION	SA	A	NS	D	SD
19.	There are practices of issuing loans to ghost clients					
20.	Loans committee at the branch grant loans on false information provided by loan officers					
21.	Loans at the branch are applied for through fraudulent procedures					
22.	The branch has loan policies, procedures and guidelines in place					
23.	The branch has a high credit risk due to poor portfolio management					

24.	Lending rates are higher than those set by the central bank					
25.	The branch manager has constantly mis-used his authority to approve loans irrespective of the procedures followed					
26.	Suppression of loan collection is very common at Entebbe road branch					
27.	Loans officers practice standard loan assessment, analysis and underwriting					
28.	There are equinox banking system rights to edit some standing data on active loans including collateral details					
29.	There are standard collateral requirements for different loan grades/ classes					

SECTION D: WORKING OUT PROBLEM LOANS AND LOAN RECOVERY

NO.	QUESTION	SA	A	NS	D	SD
30.	Clients with difficulty in loan payments are usually given an extension period					
31.	Collateral used for loan acquisition are ably used for payment of problem loans					
32.	Guarantors normally assist in payment of loans defaulted by clients					
33.	The loans committee is entirely involved in loan					

	rescheduling					
34.	Some of the loans in the loan portfolio are restructured not more than two times					
35.	The credit risk management system is adequate					
36.	Internal controls have greatly contributed to effective loan repayments					
37.	Interest rates are periodically structured to improve on the loan portfolio performance					
38.	Senior management is periodically with quality reports detailing existing loan problems and possible solutions					
39.	The bank takes up insurance for loans					
40.	The bank takes legal action for non-payment of loans					
41.	The branch complies with BOU regulations in writing off loans classified under loss					
42.	Management in charge of loans is always apprehended for loans mismanaged					

SECTION E: LOAN PORTFOLIO PERFORMANCE

NO.	QUESTION	SA	A	NS	D	SD
43.	High interest rates have greatly caused poor loan repayment rates					
44.	Willingness of clients to repay loans is affected by					

	the lending interest rates					
45.	There is a detailed procedure for loan client's screening					
46.	Loans officers are given adequate incentives on exclusive performance					
47.	Demand for credit by clients at the branch is based on the prevailing lending rates					
48.	Loan defaulters have increased on the number of court cases with the bank					
49.	Debt collection costs have tremendously reduced due to effective loan repayments by clients					
50.	Financial costs of the loans did affect clients business and household operations					
51.	Some of the loan clients have lost their collaterals to the bank due to failed loan repayments caused by the high interest rates					
52.	The branch has lost clients to other financial institutions to high lending interest rates					
53.	There has been a direct decrease on the amount of loans acquired by clients					
54.	The bureaucracy of loan approvals has been reduced for efficient performance.					

APPENDIX B:

Table for Determining Sample Size from a Given Population

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
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Source: Krejcie and Morgan, 1970

Note.—*N* is population size.

S is sample size.

APPENDIX C: RESULTS FROM RESPONDENTS (frequency and percentage)

Table 3: Bank loan portfolio quality

	Category	SD	D	NS	A	SA
Required reports are always forwarded to Head office from time to time	Managers	2	-	-	-	-
	Credit officers	-	-	7	22	-
	Total %	**6.5**	**-**	**22.5**	**71**	**-**
Loan officers always review interest rates for loans in their portfolio	Managers	2	-	-	-	-
	Credit officers	-	-	-	28	1
	Total%	**6.5**	**-**	**-**	**90.3**	**3.2**
Credit supervisors sometimes do not review portfolio management reports of the branch	Managers	2	-	-	-	-
	Credit officers	10	16	-	3	
	Total%	**38.7**	**51.6**	**-**	**9.7**	**-**
There is a completed and timely review of the branch loan portfolio	Managers	-	-	-	2	-
	Credit officers		6	-	10	13
	Total%	**-**	**19.4**	**-**	**38.7**	**41.9**
The general manager always reviews the grading of each loan	Managers	-	-	-	2	-
	Credit officers	-	10	16	3	-
	Total%	**-**	**32.2**	**51.6**	**16.1**	
On a quarterly basis, loans are reviewed and classified according to performance	Managers	-	-	-	2	1
	Credit officers	-	-	6	10	13
	Total%	-	-	19.4	38.7	41.9
Bank of Uganda criteria's are strictly followed when grading loans	Managers	-	-	-	2	-
	Credit officers	-	-	-	25	4
	Total%	**-**	**-**	**-**	**87**	**13**
Central Bank rates are considered when drafting lending interest rates at the branch	Managers	-	-	-	2	-
	Credit officers	-	-	-	21	8
	Total					
Centenary bank headquarters is provided with valuable feedback on the branch loans effectiveness	Managers	-	-	-	2	-
	Credit officers	-	-	2	24	3

	Total%	-	-	6.5	84.8	9.6
All officers handling the loans portfolio are qualified	Managers	2	-	-	-	-
	Credit officers	-	1	8	20	-
	Total	**6.5**	**3.2**	**25.8**	**64.5**	
Grading of loans at the branch starts from the date of the first loan disbursement	Managers	-	-	-	2	-
	Credit officers	-	-	-	25	4
	Total%	**-**	**-**	**-**	**87**	**13**

Table 4: Compliance with regulations

	Category	SD	D	NS	A	SA
There are practices of issuing loans to ghost clients	Managers	2	-	-	-	-
	Credit officers	-	-	-	29	-
	Total%	**6.5**	**-**	**-**	**93.5**	
Loans committee at the branch grant loans on false information provided by loan officers	Managers	2	-	-	-	
	Credit officers	-	23	6	-	-
	Total	**6.5**	**74.2**	**19.3**	**-**	**-**
Loans at the branch are applied for through fraudulent procedures	Managers	2	-	-	-	-
	Credit officers	-	27	2	-	-
	Total%	**6.5**	**87**	**6.5**		
The branch has loan policies, procedures and guidelines in place	Managers	-	-	-	2	-
	Credit officers	-	-	-	19	10
	Total%	**-**	**-**	**-**	**67.7**	**32.3**
The branch has a high credit risk due to poor portfolio management	Managers	2	-	-	-	-
	Credit officers	10	19	-	-	-
	Total%	**38.7**	**61.3**	**-**	**-**	**-**
Lending rates are higher than those set by the central bank	Managers	2	-	-	-	-
	Credit officers	3	26	-	-	-
	Total%	**16.1**	**83.9**			

The branch manager has constantly misused his authority to approve loans irrespective of the procedures followed	Managers	2	-	-	-	-
	Credit officers	-	15	14	-	-
	Total%	**6.5**	**48.4**	**45.1**	**-**	**-**
Suppression of loan collection is very common at Entebbe road branch	Managers	-	-	-	2	-
	Credit officers	-	-	1	28	-
	Total%	**-**	**-**	**3.2**	**96.8**	
Loans officers practice standard loan assessment, analysis and underwriting	Managers	-	2	-	-	-
	Credit officers	-	-	8	21	-
	Total%	**-**	**6.5**	**25.8**	**67.7**	
There are equinox banking system rights to edit some standing data on active loans including collateral details	Managers	-	-	-	2	-
	Credit officers	-	-	-	29	-
	Total%				**100**	
There are standard collateral requirements for different loan grades/ classes	Managers	-	-	-	2	-
	Credit officers	-	-	-	29	-
	Total%				**100**	

Table 5: Working out problem loans

	Category	**SD**	**D**	**NS**	**A**	**SA**
Clients with difficulty in loan payments are usually given an extension period	Managers	-	-	-	2	-
	Credit officers	-		-	15	14
	Total%	**-**	**-**		**54.8**	**45.2**
Collateral used for loan acquisition are ably used for payment of problem loans	Managers	2	-	-	-	-
	Credit officers	-	15	14	-	-
	Total%	**6.5**	**48.3**	**45.2**		
Guarantors normally assist in payment of loans defaulted by clients	Managers	2	-	-	-	-
	Credit officers	-	11	12	6	-
	Total%	**6.5**	**35.5**	**38.7**	**19.3**	
The loans committee is entirely involved in loan rescheduling	Managers	-	-	-	2	-
	Credit officers	-	-	5	21	3
	Total%	**-**	**-**	**16.1**	**74.2**	**9.7**

Some of the loans in the loan portfolio are restructured not more than two times	Managers	2	-	-	-	-
	Credit officers	-	16	10	3	-
	Total%	**6.5**	**51.6**	**32.2**	**9.7**	
The credit risk management system is adequate	Managers	2	-	-	-	-
	Credit officers	-	11	12	6	-
	Total%	**6.5**	**35.5**	**38.7**	**19.3**	
Internal controls have greatly contributed to effective loan repayments	Managers	2	-	-	-	-
	Credit officers	-	-	5	21	3
	Total%	**6.5**	**-**	**16.1**	**67.7**	**9.7**
Interest rates are periodically structured to improve on the loan portfolio performance	Managers	2	-	-	-	-
	Credit officers	-	28	-	1	-
	Total%	**6.5**	**90.3**		**3.2**	
Senior management is periodically with quality reports detailing existing loan problems and possible solutions	Managers	-	-	-	2	-
	Credit officers	-	-	10	19	
	Total%	**-**	**-**	**32.2**	**67.8**	
The bank takes up insurance for loans	Managers	-	-	-	2	-
	Credit officers	-	-	-	19	10
	Total%	**-**	**-**	**-**	**67.8**	**32.2**
The bank takes legal action for non-payment of loans	Managers	-	-	-	2	-
	Credit officers	-	-	-	29	-
	Total%	**-**	**-**	**-**	**100**	
The branch complies with BOU regulations in writing off loans classified under loss	Managers	-	-	-	2	-
	Credit officers	-	-	5	24	-
	Total%	**-**	**-**	**16.1**	**83.9**	
Management in charge of loans is always apprehended for loans mismanaged	Managers	2	-	-	-	-
	Credit officers	-	20	3	6	-
	Total%	**6.5**	**64.5**	**9.7**	**19.3**	**-**

Table 6: Loan portfolio performance

	Category	SD	D	NS	A	SA
High interest rates have greatly caused poor loan repayment rates	Managers	-	-	-	2	-
	Credit officers	-	-	2	27	-
	Total%	**-**	**-**	**6.5**	**93.5**	
Willingness of clients to repay loans is affected by the lending interest rates	Managers	-	-	-	2	-
	Credit officers	-	-	-	29	-
	Total%	**-**	**-**	**-**	**100**	**-**
There is a detailed procedure for loan client's screening	Managers	2	-	-	-	-
	Credit officers	-	23	6	-	-
	Total%	**6.5**	**74.2**	**19.3**	**-**	**-**
Loans officers are given adequate incentives on exclusive performance	Managers	-	-	-	2	-
	Credit officers	-	-	5	12	12
	Total%	**-**	**-**	**16.1**	**45.2**	**38.7**
Demand for credit by clients at the branch is based on the prevailing lending rates	Managers	2	-	-	-	-
	Credit officers	-	-	-	28	1
	Total%	**6.5**	**-**	**-**	**90.3**	**3.2**
Loan defaulters have increased on the number of court cases with the bank	Managers	-	-	-	2	-
	Credit officers	-	-	6	23	-
	Total%	**-**	**-**	**19.4**	**80.6**	
Debt collection costs have tremendously reduced due to effective loan repayments by clients	Managers	-	-	-	2	-
	Credit officers	-	2	8	13	6
	Total%	**-**	**6.5**	**25.8**	**48.3**	**19.4**
Financial costs of the loans did affect clients business and household operations	Managers	-	-	-	2	-
	Credit officers	-	-	3	16	10
	Total%	**-**	**-**	**9.7**	**58.1**	**32.2**
Some of the loan clients have lost their collaterals to the bank due to failed loan repayments caused by the high interest rates	Managers	-	-	-	2	-
	Credit officers	-	-	-	16	13
	Total%				**58.1**	**41.9**
The branch has lost clients to other financial	Managers	2	-	-	-	-

institutions to high lending interest rates	Credit officers	-	29	-	-	-
	Total%	**6.5**	**93.5**	**-**	**-**	-
There has been a direct decrease on the amount of loans acquired by clients	Managers	2	-	-	-	-
	Credit officers	-	-	-	21	8
	Total%	**6.5**	**-**	**-**	**67.7**	**25.8**
The bureaucracy of loan approvals has been reduced for efficient performance.	Managers	2	-	-	-	-
	Credit officers	-	23	3	3	-
	Total%	**6.5**	**74.1**	**9.7**	**9.7**	**-**