MAKERERE UNIVERSITY

MAKERERE UNIVESITY BUSINESS SCHOOL

IMPROVING ON THE LOAN PORTFOLIO PERFORMANCE IN ORIENT BANK LIMITED

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PLAN B

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DECLARATION

I Adong Naome declare that this is my original research report and has not been submitted to any University for an award.

SIGNITURE:………………………………….DATE……………………………

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APPROVAL

The research report on improving on loan portfolio management in Orient Bank by Adong Naome was carried out under my supervision and submitted with my approval as the supervisor.

Signature:…………………………………………Date: ……………………………..

DR. KAYONGO ISAAC NEWTON

SUPERVISOR

DEDICATION

This research report is lovingly dedicated to my One and Only Father Mr Labongo Alfred, My dearest and loving Mother Mrs. Labongo Grace, my Sisters and friends Obedgiu Vincent and Okumu Moses who laid a firm foundation for my education and I will forever be grateful.

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ABSTRACT

Lending is the principal business activity for most commercial bank that has attracted a lot of investment in the banking sector across the globe. However, the lending activity has suffered significant losses and drop in profit due to continued economic slowdown, leading to poor portfolio performances which continue to prevail among financial institutions in Uganda. There has been less attention given to address the effect of portfolio performance, Hence the need for the study with the aim of improving loan portfolio performance with reference to Orient Bank Limited. Emphasis was put on the bank's lending process, assessment of the banks loan portfolio performance and the measures adopted to improve loan portfolio performance.

The study used cross sectional and descriptive research design. The population of the study was 62 employees from which 59 employees were selected to constitute the sample size. The selection was based on Krejcie and Morgan (1970). Sampling method applied was simple random sampling to pick employees from each branch. The data for study consisted of primary data which was collected from the bank using questionnaire and analyzed using SPSS version to derive descriptive statistics. Later presented in form of tables to draw conclusion and meaning out of the data presented.

The findings revealed that the bank has the best lending process and procedures with mean values of 4.51 and standard deviation .458. The loan portfolio performance is poor as mean figures of the performance is 3.52 and standard deviation is .654. While measures adopted to improve the bank's portfolio performance is good since it scored a mean value of 4.51 and standard deviation of .385. The bank needs to improve on its loan portfolio performance by evaluating on lending process/procedures and adopt appropriate techniques to improve on portfolio quality and performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Lending is the principal business activity for most commercial banks that has attracted a lot of investment in the banking sectors across the globe (Cornett, 2003). The bank's lending forms loan portfolios, which is the largest asset and predominantly the source of bank's revenue, yet one of the greatest sources of risk to a bank's safety and soundness that need to be properly managed (Louis et al., 2003). Historically, poor portfolio management has been responsible for bank failures and losses (Koch, 2000). For instance, in the early 2000s, Uganda witnessed a collapse and painful closure of lending institutions, mainly because they had lent out irrecoverable sums of money to their borrowers (Mugume, 2012).an example of such banks include Global Trust Bank, Green land Bank. International Credit Bank, Cooperative Bank and Gold trust bank.

Mwesigwa (2014) stated that leading banks suffered significant losses or a drop in profits as the ripple effects of the economic slow-down continue to be felt. Six banks recorded losses in what turned out to be tumultuous for financial institutions. The banks attributed the decline and poor performance of their loan portfolios to a reduction in loans and advances, failures to diversify credit portfolios (Munyambonera, 2014). Mugume (2014) stated that the slow economic activity in Uganda had contributed to more bad commercial loans, hence poor performance in loan portfolios, thus a need to improve loan portfolio management

Loan portfolio management (LPM) involves evaluating the steps bank management takes to identify and control risk inherent in the credit process to prevent credit risks before they become real problems (Cornett, 2003). For decades, loan portfolio managers have capitalized on approving loans and monitoring loan performance. Effective loan portfolio management begins with oversight of the risk in individual loans to maintain favorable loan quality (Cebenoyan & Strahan, 2004). Controlling the quality of individual loan approvals and managing the performance of loans continues to be essential, banks have developed sufficient systems to measure and price risk within credits and portfolios management systems (Comptroller's Handbook, 2002).

Commercial banks in Uganda are experiencing high default rate on loan products that affects the loan portfolio performance hence credit risk resulting into reduction of capital investment (Mugume, 2014). The credit default rate is reportedly increasing in Uganda, despite the financial institutions credit risk mitigation measures. Lending Institutions have increasingly recorded high rates of non-performing loans, portfolios at risk and written-off loans amount (Bank of Uganda Report, 2011). The level of non-performing loans have increased from 4.9% in September to 6.9% in December, 2013, however, these are industry's absolute figures going to the individual bank the rate vary considerably as the case is with Orient Bank (Mugume, 2014).

Orient Bank Limited is one of the Commercial Banks in Uganda. The bank has a specialized credit department to handle credit matters and improve on the bank's loan portfolios.

In the year 2010, 2011 and 2012 the bank's portfolios has been growing while the portfolio quality has been declining as depicted in the table below:

YEAR	PORTFOLIO GROWTH	PORTFOLIO QUALITY (NPA RATE)
2010	5%	1%
2011	8%	0.62%
2012	26%	5.07%

The poor loan quality exposes the bank to high levels of credit risk; once not checked, it would result in depletion of the owner's capital invested in the bank leading to collapse of the bank. Measures undertaken to improve the bank's portfolio quality is of great relief to the bank's survival.

1.2 Statement of the Problem

The lifeblood of financial institutions lies on the quality of loan portfolios. The success of the institution depends on how well that portfolio is managed. For many years, loan portfolio managers have devoted most of their effort on cautiously approving and monitoring their loans performance. However, credit records revealed that commercial, agricultural and real estate lending has been registering high default rates (Mugume, 2014). The Credit Officers need to do more to improve on the quality of the bank's portfolios. Orient Bank has been experiencing a growth in Non-performing loans hence affecting the loan portfolio performance. Despite the fact that the banks have secured the loan portfolios and put in place a series of credit management policies to mitigate default rates on NPAs; Orient bank's Loan portfolio quality has been dropping from to 1% in 2010; 0.62 % in 2011 and 5.07%in 2012 which is subsequently threatening the bank's profitability (Financial Report, 2010, 211 & 2012).Despite

Bank's effort to improve on its loan portfolios quality, the bank's loan portfolios has not recorded a remarkable improvements within the three years periods, the portfolio quality has remained low in last three years. It is upon such setbacks suffered in the corporate loan portfolio that the study seeks to improve on loan portfolio in Orient Bank.

1.3 Purpose of the study

The purpose of the study is to improve on the loan portfolio performance in Orient Bank Limited.

1.4 Objectives of the study

The study was undertaken to accomplish the following objectives:

1. To evaluate the lending process and procedures in Orient Bank Limited.
2. To assess loan portfolio performance in Orient Bank Limited.
3. To evaluate the effectiveness of the measures adopted to improve loan portfolio performance in Orient Bank Limited.

1.5 Research questions

The study was undertaken to respond to the following questions:

1. What are the lending processes and procedures for loans in Orient Bank Limited?
2. How is loan portfolio performance assessed in Orient Bank Limited?
3. What is the effectiveness of the measures adopted to improve loan portfolio performance in Orient Bank Limited?

1.6 The scope of the study

1.6.1 Content Scope

The study focused on loan portfolio performance and management. Specific emphasis was put on evaluating the lending procedures and process, assess loan portfolio performance and evaluate measures of improving loan portfolio performance.

1.6.2 Geographical Scope

The study was carried out at Orient Bank Limited, Head Office located on Plot 6/6A Kampala Road, Orient Plaza, Kampala, Uganda.

1.6.3 Time Scope

Data was collected from the year 2010 to year 2012 to clearly evaluate the bank's loan portfolio performance over different time interval.

1.7 Significance of the study

The findings of this study may be useful to the managers of the bank, in their efforts to have good loan portfolios.

Managers of similar organizations may also find the study beneficial, since credit services that will be studied may be similar to those of other organizations; notably other banks and financial institutions.

Finally, researchers and students of banking in general and credit management in particular might find the study useful, since it adds to the pool of literature on loan Portfolio performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section presents a review of literature related to improving loan Portfolio performance. It is divided according to the objectives of the study such as evaluating the lending process and procedures, assessment of loan portfolio performance, and evaluates the effectiveness of the measures adopted to improve loan portfolio performance.

2.2 Evaluating the lending process and procedures

Credit verification: This involves Profiling of prospective borrowers to generate information on their personal identification particulars, employment details, credit status and history, saving patterns, spending patterns and public record information (Mugume, 2014). Credit verification mainly focuses on scrutinizing prospective borrowers' credit worthiness and, subsequently, guiding lending institutions in selecting customers for credit extension. Orient Bank Limited advices its loan officers to use the 7Cs (character, capacity, conditions, cash flow, and collateral, common business sense) to enable meaningful evaluation during the verification procedure (Kaddu, 2014).

Credit approval: Process through which a borrower's credit verification report compiled by a loans officer is validated by the lenders peers or supervisors to ensure that there are no gaps in the verification report submitted and that the report is a good basis for the granting of a credit facility (Kaboyo, 2014). This is usually done by the Management Credit Committee and Board Credit Committee. When documents are submitted for consideration and approval, the Board or Management Credit Committee may approve or reject or give instructions for further appraisal or verification. When approved, offer letters are made with amounts, interest rates, repayments and other conditions which are availed to the customer for signing and return to the Bank (Mugume, 2010).

Credit disbursement: Process through which approved loans are booked into the system for the customer to access monies approved to them. This process is only done after the bank has received fully signed documents from the customer and the customer has fully completed formalities regarding documentation, registration of collateral, insurance cover and other legal documentations (EBID EOWWAS Disbursement Manual, 2009).

Credit Monitoring: According to the Wikipedia Online Encyclopedia, credit monitoring is a description of the process of keeping up with the progress of the project(s) for which credit was obtained, to ensure that any shortfalls are identified in good time and remedial actions are taken so as to prevent the borrower from failing to pay (www.wikipedia.org). A proper credit monitoring system will provide the basis for taking prompt corrective actions when warning signs point to deterioration in the financial health of the borrower that signal unauthorized drawings, arrears, excess drawing.

Credit monitoring should be done, even in instances where credit verification and approval are well done and indicate a good credit rating, because the borrowers may misappropriate the credit disbursed to him or her, with the result that he or she is unable to meet the repayment obligations that come with the loan. This therefore implies that in addition the credit officers and analysis to their efforts in the area of credit verification and approval, lending institutions should also endeavor to monitor their borrowers' utilization of the loans disbursed to them.

Conversely, this suggested that, in instances where credit default rates are rising, lenders' monitoring of their borrowers' activities (or the lack of it) should be investigated.

Credit Recovery: These are Activities directed at ensuring that borrowers meet their contractual obligation to pay the lender when due; including such activities as reminding the borrower that their payments are due; and attachment of securities on loans and execution of relevant arbitration procedures in case of borrowers that may be defaulting on their re-payment obligations.

2.3 Assessment of loan portfolio performance

Financial Dictionary defined portfolios as loans that have been made or bought and are held for repayment. Loan portfolios are the major asset of banks, 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).

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).

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). 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 funds 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, 2010). 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.

According to Kaboyo (2014) observed that the large amount of bad debts that were written off not only erodes the industry's profitability but also exerts pressure on banks' net worth, which in turn lowers banks' ability to take risks such as investing in business expansion. Kaddu (2014) attributes the increase in the amount of written off debts to borrowing based on speculations rather than business plans and lack of financial disciplines.

Mugume (2012) noted that there are various factors that could lead to non performing loans which eventually affect the loan portfolio performance in the banking Industry includes;

Credit risk of the loan portfolio also is one of the factors that influence loan portfolio performance. It plays an important role mainly for banking institutions, which try to develop their own credit risk assessment models in order to increase bank portfolio quality (Jakubik, 2007). Together with risk management the need to evaluate the performance of banks in a more efficient way was identified and enhanced not only by supervising institutions, regulators and bank management bodies but also by clients, as their concern about the stability and sustainability of these financial institutions has grown significantly. This influences a rethink of the applicability of current performance evaluation techniques and credit risk assessment models along with their improvement (Stankeviciene & Mencaite, 2012).

Macroeconomic conditions

Liang (2012) affirms that a relevant macro factor should be one that has a broad impact on most firms' creditworthiness. Festic, Kavkler and Repina (2011) affirm that changes in the macroeconomic environment translate into changes in the quality of a loan portfolio in banks. Favourable macroeconomic conditions coincide with better capabilities in loan repayment, a lower probability of default (PD), a lower share of non-performing loans to total loans (the NPL ratio).

Hamerle et al. (2011) also agrees that credit risk is correlated with macroeconomic variables or risk factors. In economic downturns, default probabilities increase and ratings deteriorate. The Gross Domestic Product (GDP) growth is considered as an important macro determinant of bank performance and allows for controlling business cycle fluctuations. During recessions the quality of loans declines and therefore companies borrow at higher margins, therefore a negative relationship between credit spread and economic growth is to be expected. Naceur and Omran (2011) found that prevailing business cycle conditions affect net interest margins. The GDP can significantly influence the borrower's ability to repay the loans as evidences suggest that higher GDP growth will have a negative correlation with current NPA (Thiagarajan et al., 2011). According to Gaganis *et al.* (2010) the GDP growth not only reduces non-performing loans, but it can also delay banking crises due to pro-cyclicality.

Economic expansion will influence the default rate for the aggregate economy as demand for goods and services increase. Accordingly, increased profitability decreases the default rate. GDP turned out to be a significant factor in explaining default risk in various countries. This is consistent with Moody‘s report on historical default rates, in which they argue that cyclical indicators are highly correlated with the number of defaults, the number of credit rating downgrades and credit spreads. Regarding Debt-to-GDP ratio, debt of general government has a positive effect on default rate (Ali & Daly, 2010).

2.4 Measures adopted to improve loan portfolio performance

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 problems have historically been the major cause of bank losses and failures (Comptroller's Handbook, 2000).

According to the Comptroller's Handbook (2000), effective loan portfolio management begins with oversight of the risk in individual loans. Prudent risk selection is vital to maintaining favorable loan quality. Therefore, the historical emphasis on controlling the quality of individual loan approvals and managing the performance of loans continues to be essential. But better technology and information systems have opened the door to better management methods. A portfolio manager can now obtain early indications of increasing risk by taking a more comprehensive view of the loan portfolio. In retrospect, a well positioned management information system is an avenue for loan portfolio quality which then leads to a good loan portfolio performance.

Assessment of Credit

The three processes in assessment of credit in commercial banks include Loan Approval Process, Loan Monitoring Process, and Loan Termination Process. Understanding each of the mentioned processes in the assessment of credit is central to successful loan portfolio management. Because of the significance of a bank's lending activities, the influence of the assessment of credit culture frequently extends to other bank activities. Staff members throughout the bank should understand the bank's assessment credit culture. The knowledge should pass from the credit officer to credit analyst to administrative support. Directors and senior management should not only publicly endorse the credit standards that are an assessment of credit culture's backbone but should also employ them when formulating strategic plans and overseeing portfolio management (Milton, 2000).

Analysis of Loans

Analysis of loans varies from bank to bank. Some banks' analysis of loans is done using a very conservative approach, as a result of lending only to financially strong, well-established borrowers. Growth-oriented banks may approach lending more aggressively, lending to borrowers who pose a higher repayment risk which calls for a rather more sensitive analysis of loans. These differences are grounded in a bank's objectives for asset quality, growth, and earnings. Emphasizing one of these objectives over another does not, in and of itself, preclude achieving satisfactory performance in all three (Saunders, 2003).

However, the emphasis on approach to analysis of loans will influence how lending activities are conducted and may prompt changes in credit policies and risk control systems. For example, a bank driven to achieve aggressive growth targets may require more detailed credit policies and more controlling administrative and monitoring systems to manage the analysis of loans. Consistently successful banks achieve a balance between asset quality, growth, and earnings. They have cultural values, credit policies, and processes that reinforce each other and that are clearly communicated, well understood, and carefully followed (Saunders, 2003).

Portfolio Diversification

Portfolio diversification remains an important part of managing a bank's credit risk, but portfolio diversification also involves looking at entire segments of the portfolio groups of loans with similar risk characteristics. Bank management may make a different decision about underwriting requirements for an individual transaction if it takes into account the risk profile of the bank's entire portfolio rather than focusing only on the individual transaction (Zarruk, 1989).

Munyambonera (2013) agrees that banks need to effectively diversify its loans or else this leads to a reduction of loans and advances which then leads to the decline and poor performance of loan portfolio. Effective portfolio diversification requires an understanding of all of the risk characteristics of the portfolio. A bank should segment its portfolio in a number of different ways; for example, by loan type, industry, geography, structure, collateral, tenor, and risk of default or loss. The same loan may be included in several portfolio segments based on different risk elements. Portfolio diversification is fundamental to portfolio management. The bank should identify the risk characteristics of each segment as part of concentration management; the bank also should try to identify possible covariance, similarities, or interrelationships among portfolio segments (Zarruk, 1992).

Portfolio Risk

Banking is both a risk-taking and profit-making business, and bank loan portfolios should return profits commensurate with their risk. Although this concept is intellectually sound and almost universally accepted by bankers and examiners alike, banks have had difficulty implementing it. Over the years, volatility in banks' earnings usually has been linked to the loan portfolio. While there are many contributing factors including market forces, anxiety for income, poor risk measurement, and weak risk management, a common underlying factor has been banks' tendency to underestimate or underpriced credit risk (Sarkar, 2002).

Because bank managements and boards are responsible for serving their communities, achieving acceptable shareholder returns, and protecting the interests of depositors, they need to ensure that the loan portfolio provides consistent, reasonable returns. Individual credits and portfolio segments should be priced to provide reasonable shareholder returns while maintaining adequate capital and allowance levels. The price (index rate, spread, and fees) charged for an individual credit should cover funding costs, overhead/administrative expenses, the required profit margin (generally expressed as a return on assets or equity) and risk (Sarkar, 2002).

Funding costs are relatively easy to measure and incorporate into loan pricing. Measuring overhead and administrative costs is more complicated because banks traditionally have not had strong cost accounting systems. Additionally, common services with differing or ambiguous values to each user (What, for example, is the dollar value of loan review?) can be difficult to measure. The required profit margin is a straightforward concept and is usually derived from the strategic plan. This leaves "risk," which is the crux of the pricing dilemma. The methods used to incorporate risk into loan pricing decisions range from simple "pro-rata" allocations of existing loan loss reserves and capital to complex estimations of default frequency and probability, loss levels, and loss volatility (Comptroller's Handbook, 2002).

Both bankers and examiners, however, must be alert to inappropriate application of relationship pricing and return methods. Loans may be booked at unprofitable rates based on the assumption, or promise, that other profitable business will follow. When the other business fails to materialize, the returns may be insufficient to compensate the bank for the credit risk. Banks should have systems to accurately measure relationship returns, and must exercise tight controls over loans granted on the basis that relationship profitability will be achieved in the future (Sarkar, 2002).

Portfolio risk and return concepts encompass almost all of the credit risk measurement and management principles. Ultimately, the risks in individual credits, lending relationships, portfolio segments, and entire portfolios will be incorporated into pricing decisions through discrete risk-based allowance and capital charges. For now, pricing for risk continues to be a developing science. Banks are encouraged to develop sufficient systems to measure and price risk within credits and portfolios accordingly (Comptroller's Handbook, 2002).

Credit Policies

Credit Policies and Procedures in Orient Bank is catered for by the Internal Memorandum which provides a framework for the entire management process and sets objective standards and parameters that guide the bank officers in the granting of loans and the management of the loan portfolio. The policy is set to establish a framework within which the credit risk arising from lending will be originated and managed in order to minimize the risk of financial loss (Internal Memorandum, 2009).

The policies within Orient Bank involve interaction with customer; visits to premises of customers officers credit supervisors; credit analysis and appraisal of the customer based on the 7c's (character, capacity, condition, collateral, capital/cash flow and common business sense (a write up document and executive summary are prepared for presentation to the committee); recommendation by branch loans committee to the head office; monitoring and recovery of the loan by credit officers. In case of complete failure to recover the loans, the branch management refers the cases to the legal department, which in turn forwards them to the recovery team (Internal Memorandum, 2009).

2.5 Conclusion

Banks are entrusted with savers’ money. They should ensure that the savers’ money is always there when needed. The commercial bank has to ensure default rates are greatly minimized by evaluating the lending process or procedures, and adopting measures to improve loan portfolio performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research design

The study used cross sectional design to analyze the situation of loan portfolios performance at Orient Bank Limited at one point in time and descriptive statistics was applied to describe the state of affairs regarding loan portfolio performance in the bank and the characteristics of the respondents using quantitative data.

3.2 Target Population

Orient Bank Limited has many branches but the study mainly concentrated on 62 employees who are engaged in credit analysis, credit administration and control, credit recovery and relationship management at Head Office and branches. These were the people who have the reliable information needed by the researcher in order to come up with viable and accurate data and conclusion.

3.3 Sampling size

The sample size was 59 employees chosen from the target population of 62 employees engaged in credit analysis, credit administration and control, credit recovery and relationship management. The selection of the sample size was based on Krejcie & Morgan (1970) sample size determination table (see Table 1).

Table 1: Sample Size of Respondents

Respondent	**Target Population**	**Sample Size**
Credit Analysts	3	3
Credit Administration & Control Officers	5	5
Credit Recovery Officers	4	4
Relationship Managers	20	19
Relationship Officers	30	28
Total	**62**	**59**

Source: Human Research, Orient Bank ltd (2014)

3.4 Sampling Techniques

The selection of the sample size was based on simple random sampling techniques where a list of employees engaged in credit analysis, credit administration and control, credit recovery and relationship management were assigned random number put in a box picked without replacement to analyze the portfolio performance.

3.5 Data sources and collection methods

The study used primary data. Primary data was collected through questionnaires from selected employees who constituted the sample from Orient Bank Limited.

3.6 Research procedure

The researcher got a letter of introduction from Graduate and Research Centre to introduce the researcher to Orient Bank. This letter was presented to the research department of the bank upon acknowledgement the researcher went on with data collection in the bank.

3.7 Reliability and validity of the instruments

The research instruments were developed from previous studies with modifications to suite the interest of the study. These instruments were given to experts in credit management, including the supervisor to ensure that the research instruments have face and content validity. However, Cronbach's Alpha coefficient and Content Validity Index (CVI) were used to compute the reliability and content validity of the instrument. The results are indicated in the table below:

Figure 3.7.1 Reliability and validity Statistics of the instruments

Variable	**No. of Items**	**Cronbach's Alpha**	**CVI**
Evaluation of lending process or procedures	9	.770	.778
Assessment of loan portfolio performance	11	.805	.818
Measures to improve the loan portfolio performance	11	.804	.909

Source: primary data

According to the table above the Cronbach Alpha and CVI were above .70 and they were sufficient enough to draw valid conclusions on the study variables. This is consistent with Amin (2005) who stated that the reliability results of .70 or higher can be relied upon in research. Therefore, the instrument's reliability and CVI results affirm that all components of instrument were highly reliable and valid since Cronbach's alpha and CVI were greater than .70, an indication that the instruments were reliable and valid.

3.8 Measurement of the Variable

The study variable (i.e. Loan portfolio performance) was measured using Credit risk Measurement that uses Expert systems and subjective analysis (Altman & Saunders, 1998). Twenty (20) years ago most financial institutions (FIs) relied virtually exclusively on subjective analysis or the banker ``expert'' systems to assess the credit risk on corporate loans. Essentially, when using Credit Risk Management to assess portfolios, the bankers use information on various borrower characteristics such as borrower character, capital (leverage), capacity (volatility of earnings), condition and collateral, the so-called 5 ``Cs'' of credit, to reach a largely subjective judgment (i.e., that of an expert) as to whether or not to grant credit.

3.9 Data analysis and reporting

After the researcher generated responses from the field the data was edited to ensure that data provided were complete to avoid instances of missing values. Questionnaires that were not fully completed did not form part of the analysis. The different items on the research objectives were given special codes to ease the analysis process. Statistical Package for Social Scientist (SPSS) version 20 was used to derive descriptive statistics in form of frequencies, percentages, mean, and standard deviation. The analysis was done according to the sample characteristics and research questions to derive meaning on the data for reporting.

3.10 Ethical considerations

The research used identity documents from Makerere University to introduce herself to the management of Orient Bank Limited seeking permission to undertake the study in the organization. Assurance was made to management and staff that the information collected is for academic purposes, measures was undertaken to safeguard the respondent's interest by not disclosing any information about them.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter contains the presentation of findings based on the respondent's characteristics and research objectives. The chapter starts with presentation of the respondent's characteristics. The sample size was 59 respondents and 47 responses were received from the respondents.

4.2 Respondent's characteristics

The characteristics of the respondents helped the researcher to put the results of the study into context. This section clearly illustrates the demographic composition of the respondents who participated in the study. The characteristics included; Gender, Marital status, Age, Education in different branches in Orient Bank as demonstrated in the tables below.

4.2.1 Gender of the respondents

The table below depicts the gender of the respondents who took part in the study.

Table 4.1 Gender of respondents

Gender	Frequency	Percent
Male	29	61.7
Female	18	38.3
Total	**47**	**100.0**

Source: Primary data

The above table shows that there were more male respondents (61.7%) compared to female respondents (38.3%) who were involved in the study. This indicates that the view presented in the research report represents the view of both women and men employed in the bank, hence they are gender sensitive though their employment trend tend to favour more males than females.

4.2.2 Level of Education

This presents the level of education of the respondents who participated in the research study.

Table 4.2 Level of Education

Level of Education	**Frequency**	**Percent**
Bachelor degree	32	68.1
Master degree	15	31.9
Total	**47**	**100.0**

Source: Primary data

The findings in table above revealed that 15 of the respondents (31.9%) had Master's degree, and those with Bachelor degree were 32 representing 68.1 %. The implication is that the bank employs highly qualified personnel with a minimum of a bachelor degree, which in one or the other are capable of promoting professionalism at the bank in the performance of different activities.

4.2.3 Age of respondents

The Age of respondents was studied the results are indicated in the table below**.**

Table 4.3Age of respondents

Age of Respondents		**Frequency**	**Percent**
Valid	20-25 years	1	2.1
	25-30 years	14	29.8
	30-35years	26	55.3
	35 - 40 years	2	4.3
	40 Above	4	8.5
	Total	**47**	**100.0**

Source: Primary data

The table shows that 55.3% of the respondents lies in the age group between 30-35 years, 29.8% fall between 25-30 years, 8.5% are above 40 years while 4.3% are in the age bracket 35-40 years and the lowest proportion of the age group in the bank lies in the age group of 20-25 years representing 2.1%.This indicates that the bank has matured employees who are capable of making informed decision regarding portfolio management in the bank.

4.2.4 Number of years worked with the bank

This contains the number of years the respondents have worked with the bank as shown the table below in the range of five years.

Table 4.4Number of years worked with the bank

No. of years worked		**Frequency**	**Percent**
Valid	Less than 5 years	38	80.9
	Less than 10 years	6	12.8
	Less than 15 years	3	6.3
	Total	**47**	**100.0**

Source: Primary data

Results in table 4.4 show that 80.9% of the respondents have worked for less than 5 years, 12.8% of the respondents have worked for less than 10 years while 6.3% worked for less than 15 years. Implying that employees in the bank have worked with the bank in years ranging between 1 year and 14 years, which equip the bank with some wealth of experience that bank can use to improve on its portfolio management.

4.2.5 Working experience with other bank

There was a question raised to find out as to whether the respondents had with other banks as Credit Officer, Relationship Officer and Manager. The results revealed that 70.2% of the respondents had carried out similar assignments while 29.8%stated that they did not work in a similar position with other banks. The results are indicated in the table below:

Table 4.5 Working experience with other bank

Worked with other banks	**Frequency**	**Percent**
Yes	33	70.2
No	14	29.8
Total	**47**	**100.0**

Source: Primary data

This indicates that 33 respondents of the bank have working knowledge of what they do on a routine basis while 14 of the respondents joined the bank as fresh graduate without banking experience.

4.3 Evaluation of lending process and procedures in Orient Bank

The researcher was interested in evaluating the lending process and procedures in the bank. The respondent’s views were presented according to the nine items raised in the questionnaire in line the bank’s lending process and procedures. The results are presented in the table below:

Table 4.6 Lending Process and Procedures in Orient Bank

	N	Minimum	Maximum	Mean	Std. Deviation
1. The Bank starts its loan process after the borrower has applied for a loan.	47	3	5	4.64	.640
2. The bank collects information on loan applicants before approving loans.	47	4	5	4.77	.428
3. The bank collects information on loan applicant's credit history and status using credit reference Bureau.	47	2	5	4.49	.748
4. The credit analyst checks the validity of information collected by Relationship officers/Relationship managers	47	3	5	4.72	.540
5. The bank collects information on loan applicants banking activity.	47	1	5	4.34	1.147
6. The reports compiled by the Relationship officers about loan applicants are validated by credit analysts.	47	1	5	4.26	1.113
7. Credit analyst vets the borrowers basing on the valid information collected by the Relationship officers.	47	2	5	4.13	.875
8. The loans are approved by Management credit Committee or Board Credit Committee before prior disbursement of loans or funds	47	3	5	4.85	.416
9. The legal Team ensures that loans are given only to borrowers with perfected documentation details.	47	3	5	4.40	.648
Average	**47**	**2.44**	**5**	**4.51**	**.458**

Source: Primary Data

On a Likert's scale of 1 to 5, the respondents were asked to evaluate bank's lending process and procedures. On average, the respondent's rating of the bank's lending process and procedures of loan had an average mean score of4.51 with a standard deviation (SD) of .458.The respondent's view on the items by exception revealed that following items were rated highly by the respondents: the bank loan is approved by Management Credit Committee or Board Credit Committee before disbursement (mean = 4.85, standard deviation = .416); the bank collects information on loan applicants before approving loans (mean = 4.77, standard deviation = .428); The bank starts the loan process when the borrower have applied for a loan (mean = 4.64, standard deviation = .640). While the items which were rated lowly were: Credit analyst vets the borrowers basing on the valid information collected by the Relationship officers (mean = 4.13, standard deviation = .875); the reports compiled by the Relationship Officers on Loan Applicants are validated by Credit Analysts(mean = 4.26, standard deviation = 1.113); the bank collects information on loan applicants banking activity (mean = 4.34, standard deviation = 1.147).The legal Team ensures loans are given to borrowers with perfected documentation and the bank collects information on loan applicant's credit history had a moderate a mean values 4.40 to 4.49 with standard deviations of .648 and .748 respectively.

4.4 Assessment of Loan Portfolio Performance in Orient Bank

The researcher was interested in assessing loan portfolio performance in Orient Bank. To achieve the objective, several questions were raised in line with the research objectives. The results of the finding are presented in table below:

Table 4.7 Assessment of loan portfolio performance in Orient Bank

	N	Minimum	Maximum	Mean	Std. Deviation
1. It's very easy for the customer to get loans in the bank after they have put in their requests.	47	1	5	3.23	1.047
2. The Lending process takes relatively a short time thus favouring the customer's needs	47	1	5	2.87	1.209
3. The established/recommended lending process and procedure in the bank is strictly followed from the credit officer to approval.	47	1	5	3.30	1.301
4. The draw down process by the credit admin team is strictly followed in terms of correct or set rates, amount, currency and accounts.	47	1	5	3.53	1.283
5. Relationship officers/managers ensure close monitoring of the borrowers after money has been availed to them through frequent visits.	47	1	5	3.74	1.031
6. As a relationship officer I review the Bank borrower's accounts daily to confirm that they still consistently bank with the bank.	47	1	5	3.68	1.218
7. As a Credit officer I review the various reports (Arrears, excess, overdrawn accounts without limits) to ensure the clients don’t become bad debtors.	47	1	5	3.72	.877
8. As relationship officer/ Credit officer I have a strong relationship with my clients that in case of ups and downs in business I advice accordingly	47	2	5	3.51	.997
9. As Credit officer once I find any anomaly with the borrowers financed project I duly inform my immediate supervisors.	47	1	5	3.87	.969
10. As relationship officer/ Credit officer I remind the bank borrower in my portfolio at least a day before their due date to clear their due installment.	47	1	5	3.28	1.077

11. As relationship officer/ Credit officer I duly update the clients file with all new information that I collect about any new developments.	47	1	5	3.96	1.250
Average	**47**	**1.09**	**5**	**3.52**	**.654**

Source: Primary Data

On a Likert's scale of 1 to 5, the respondents were asked to assess the loan portfolio performance of the bank. On average, the respondent's rating of the bank's loan portfolio performance had an average mean score of 3.52 with a standard deviation (SD) of .654. The respondent's view on the individual items revealed that Relationship Officer/Credit Officer updating the clients file were rated highly (Mean = 3.96, Standard Deviation = 1.250);followed by Credit Officer inform immediate supervisors of any anomaly with the client's financed project (mean = 3.87, standard deviation = .969); Relationship Officers ensure close monitoring of the borrowers after money has been availed (Mean = 3.74, standard deviation = 1.031);Credit Officer review the various reports to ensure the clients don't become bad debtors(Mean = 3.72, Standard Deviation = .877); Relationship Officer review the Bank borrower's accounts daily to confirm that they consistent with the bank's policy (Mean = 3.68, Standard Deviation = 1.218); The credit admin team strictly follows credit terms in relation to rates, amount, currency and accounts(Mean = 3.53, Standard Deviation = 1.283); Relationship Officer/Credit Officer have a strong relationship with my clients(Mean = 3.51, Standard Deviation = .997); the established/recommended lending process and procedure in the bank is strictly followed(Mean = 3.30, Standard Deviation = 1.301); Relationship Officer/Credit Officer remind the bank borrower in my portfolio at least a day before their due date(Mean = 3.28, Standard Deviation =1.077); it's very easy for the customer to get loans (Mean = 3.23, Standard Deviation = 1.047) and the lending process takes relatively a short time as the least (Mean = 2.87, Standard Deviation = 1.209).

4.5 Measures to improve loan portfolio performance in Orient Bank

The researcher was interested in investigating measures adopted by the bank to improve loan portfolio performance. To achieve the objective, questions were raised in line with the study objectives. The results of the finding are presented in table below:

Table 4.8 Measures to improve loan portfolio performance in Orient Bank

	N	Min	Max	Mean	Std. Deviation
1. The Credit Officers/ Relationship Officers should carry out a thorough sourcing for borrowing clients with due diligence	47	3	5	4.47	.584
2. The Credit Analysts should always adhere to all requirements on the credit policy /manual when vetting the loan proposals.	47	4	5	4.74	.441
3. The Approval Committee should ensure that the loan proposals are in line with the bank credit policy and manual before approving the loans to clients	47	4	5	4.66	.479
4. The Legal Department should ensure that all necessary security documents are perfected to safe guard the bank in case of default.	47	3	5	4.64	.568
5. The Credit Administration Department should ensure that all disbursements are in line with the approved loan parameters.	47	3	5	4.55	.544
6. The Credit officers should closely monitor the performance of their clients /borrowers after money has been disbursed	47	4	5	4.60	.496
7. The Credit Administration Department should closely monitor the performance of borrowers in terms of arrears, loans in excesses, overdrawn accounts without limits consistently and alerts relationship officers /credit officers.	47	4	5	4.68	.471
8. The supervisors should ensure that credit officers call all clients who have not paid on the second day past due date	47	2	5	4.40	.614
9. The bank should ensure that credit officers/ Relationship officers issue all clients in default for more than 14 days with a second reminder letter.	47	2	5	4.11	.914
10. The bank should ensure that credit officers/ Relationship officers present all cases above thirty days in arrears to recovery Team.	47	1	5	4.53	.776
11. The bank should ensure that credit officers continue to follow up all cases in arrears even if assigned to Recovery Team.	47	2	5	4.19	1.076
Average	**47**	**2.91**	**5**	**4.51**	**.385**

Source: Primary Data

Items on the instruments evaluating measures to improve loan portfolio performance were rated on a scale of 1 to 5, the respondents score individual item highly. On average, the respondent's rating of the bank's loan portfolio performance had an average mean score of 4.51with a standard deviation (SD) of .385. The respondent's view on the individual items revealed that credit analysts should always adhere to all requirements on the credit policy/manual when vetting the loan proposals was rated high (Mean = 4.74, Standard Deviation = .441); followed by Credit Administration Department should closely monitor the performance of borrowers(mean = 4.68, standard deviation = .471); Approval Committee should ensure that the loan proposals are in line with the bank credit policy and manual (Mean = 4.66, standard deviation = .479); Legal Department should ensure that all necessary security documents are perfected to safe guard the bank in case of default(Mean = 4.64, Standard Deviation = .568); Credit officers should closely monitor the performance of their clients/borrowers after money has been disbursed(Mean = 4.60, Standard Deviation = .496); Credit Administration Department should ensure that all disbursements are in line with the approved loan parameters(Mean = 4.55, Standard Deviation = .544); bank should ensure that credit officers/ Relationship officers present all cases above thirty days in arrears to recovery team(Mean = 4.53, Standard Deviation = .776); Credit Officers/Relationship Officers should carry out a thorough sourcing for borrowing clients with due diligence(Mean = 4.47, Standard Deviation = .584); Supervisors should ensure that Credit Officers call all clients who have not paid on the second day past due date(Mean = 4.40, Standard Deviation = .614); the bank should ensure that credit officers continue to follow up all cases in arrears even if assigned to Recovery Team it's very easy for the customer to get loans (Mean = 4.19, Standard Deviation = 1.076) and the bank should ensure that credit officers/ Relationship Officers issue all clients in default for more than 14 days with a second reminder letter (Mean = 4.11, Standard Deviation = .914).

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter discusses the results of the research findings, provides conclusions, recommendations, areas of further research and limitations of the study. The purpose of the study was to improve on the loan portfolio performance in Orient Bank Limited. The researcher discusses the findings in comparison to consistency and inconsistency between the study findings and literature reviewed on loan portfolio performance.

5.2 Discussion of Findings

The findings are discussed based on the views of the respondents in line with study objectives stated in chapter one. The discussion involves evaluation of lending process and procedures, assessment of loan portfolio performance and measures to improve on loan portfolio performance in Orient Bank Limited.

5.2.1 Lending process and procedures in Orient Bank Limited

The objective here was to evaluate the lending process and procedures of the bank. The results revealed that the bank's lending process and procedures is very good on a scale of 1-5 the respondents rated the bank's lending process and procedures very high with an average mean score of 4.51 with a standard deviation (SD) of .458.Majority of the respondent stated that before loan is given it has to be approved by credit committee who sit to evaluate the applicant's who have applied for the loan based on the credit rating criteria, which eventually narrows the client's default if the client information are properly assessed to protect owner capital since banks are mere custodians for savers financial resources, the careful assessment ensures that whatever decision taken to give the money should guarantee its safety (Mugume, 2012). However it should be noted that such evaluation are subjective based on the opinion of the expert (Kaboyo, 2010); having granted the loan does not guarantee that the client will pay the loan back as a personal opinion might not reflect the true nature of the loan applicants (Altman & Saunders, 1998).

The result also indicated that legal Team ensures loans are given to borrowers with perfected documentation (Mean = 4.49, SD = .748) and the bank collects information on loan applicant's credit history (Mean = 4.40, SD = .648) were moderately implying that the bank does not pay much attention to such item yet when it come to recovery that would be a fallback position to secure bad loan. Ideally, the bank must always follow what is stipulated in the credit policy document whenever granting loan to ensure quality loan to clients (Internal Memorandum, 2009).

5.2.2 Assessment of loan portfolio performance in Orient Bank Limited

The objective was to assess the bank's loan portfolio performance. The results revealed that the bank's loan portfolio performance is poor. The average score presented by the respondents depicts that the loan portfolio performance of the bank on a scale of 1-5 is 3.52with a standard deviation (SD) of .654. This imply that bank loan performance in not good an indication that few of the bank portfolio are good and majority of the bank's clients are likely to default (Mugume, 2014).

This is due the fact that the bank has instituted good measure to assess portfolio performance; however, due to one reason or the other, these mechanisms are not strictly adhered to following answers the respondents pegged on the research instrument evaluating portfolio performance in the bank as there is laxity in following the bank lending process and procedure (Mugume, 2012), some credit officer do not send reminder to the borrowers about due date, some of the credit officer do not have strong relationship. Basically, some customers need to be reminded even if they were aware of the payment dates due. Some people will stay with money unless reminded (Kaboyo, 2011) while laxity on the lending procedures mean that even bad loan can easily be granted which affects the bank's portfolio performance (Bank of Uganda, 2013), we are aware that we operate in a competitive environment that should guarantee granting a loan to whoever ask for it, but should be based on sound credit ratings to have a clean portfolios capable of sustaining the bank's activity and performance (Anon, 2004).

5.2.3 Measures to improve loan portfolio performance in Orient Bank Limited

The objective was to evaluate the measures to improve loan portfolio performance in the bank. The results revealed that the instruments evaluating measures to improve loan portfolio performance are very good and the respondents score them highly. On average, the respondent's rating of the bank's loan portfolio performance had an average mean score of 4.51with a standard deviation (SD) of .385.But the issue of concern is that why is it that the bank continued to register poor portfolio performance, yet they have one of the best mechanisms to improve on the bad loans (Pasha & Khamra, 2010). Ideally, it can be noted these are policies developed by management there could be problem with implementation by operational staff and managers (Kaddu, 2014). With such a good measures instituted one would expect the bank to improve the quality of portfolio held that lowers the default hence fulfilling the interest of the bank's stakeholders (Comptroller's Hand Book, 1989).

Based on the respondents, view the best measures include; credit analysts should always adhere to all requirements on the credit policy, Credit Administration Department should closely monitor the performance of borrowers, Approval Committee should ensure that the loan proposals are in line with the bank credit policy, Legal Department should ensure that all necessary security documents are perfected, Credit officers should closely monitor the performance of their clients after money has been disbursed, Credit Administration Department ensure that all disbursements are in line with the approved loan parameters, bank should ensure that credit officers present all necessary cases above one thirty days in arrears to recovery team, Credit Officers should carry out a thorough sourcing for borrowing clients, Supervisors should ensure that Credit Officers call clients constantly, the bank should ensure that credit officers continue to follow cases of arrears and the credit officers issue all clients reminder were the measures which were rated high up in the order of importance.

5.3 Conclusions

From the study findings it can be concluded that the lending process and procedures of Orient Bank was very good based on the evaluation of the respondents who rated it highly compared to other instruments. On average, the respondent's rating of the bank's lending process and procedures of loan had an average mean score of 4.51 with a standard deviation (SD) of .458.With this we expect the bank to always have a clean portfolio due to the rigorous process the loan go through before they are granted to the clients.

The respondent's rating of the bank's loan portfolio performance had an average mean score of 3.52 with a standard deviation (SD) of .654. Implying that loan portfolio performance at the bank is weak due to weak rating by the respondents. Issues of bad or non-performing or irrecoverable loans seem to be a common play in the bank.

The overall rating on the instrument evaluating measures to improve loan portfolio performance was the best overall with lowest standard deviation. The average score for the bank's measures to improve loan portfolio performance had an average mean score of 4.51with a standard deviation (SD) of .385.Implying they have very good measure meant to safeguard against defaulters in the bank. With such we expect the bank to have lower default rate and a good portfolio quality.

5.4 Recommendations

Management should ensure that the bank has an effective loan review system and controls that identify, monitor and address loan quality problems in an accurate and timely manner. The loan review system and controls must be responsive to changes in internal and external factors affecting the level of credit risk in the portfolio as well as prioritize and strengthen the credit verification and approval practices.

Management should also ensure the prompt identification of bad loans and adequate classification and provisioning for such loans. Management to formulate adequate and clear policies and procedures for writing-off impaired loans. For a loan to be impaired management must first approve according to the operating policy, which need to be centralized at the head office to avoid conflicting views in the different branches.

Monitoring should form the basis of the bank's activity. It's important for the bank to monitor their clients upon picking a loan to see where it has been invested and how it is performing for them to avoid being caught off guard. The bank should call their clients on a regular basis to find out how their businesses are running, have monthly bank visits to clients, and respond to client concerns.

The bank needs to have a customer friendly recovery process, before a recovery is initiated a reminder and demand notices need to be sent to clients and make the guarantors clearly aware of their responsibilities and implications at the time of taking loans. This is critical as it is a cornerstone for customer retention.

The Credit Management Committee should have a clear loan approval policies and procedures with particular reference to criteria, authorization and limits on the amount to approve.

Management should increase reference to the credit reference bureau during the process of disbursing loans to clients, as well as strict enforcement of requirements for approval of loan application

Management should ensure that the bank's process of determining an adequate level of loan loss provisions is based on a comprehensive, adequately documented, and consistently applied analysis of the bank's loan portfolio management that considers all significant factors that affect the collectability of the portfolio and supports the range of credit losses estimated by this process.

Management should formulate and approve detailed policy on the classification of impaired loans and provisioning which are consistent with the bank's operating procedures. The policy should address the classification of various types of loans and financing facilities.

There should be frequent training to staff on portfolio management to ensure that they know how to give out loans and monitor the portfolio performance as well as interpret the financial figures with accuracy to the bank management. This will help staff to know of their actual contribution to the bank.

Management should ensure that borrowers are sensitized on the consequences of diverting the funds disbursed to them to uses that were not approved by the bank at the time of lending because this leads to defaults.

5.5 Limitations of the Study

The respondents were busy and usually uncooperative that why the response was small than what the researcher had expected.

Secondly, financial institutions are very secretive in disclosing information on portfolio performance with ease.

5.6 Areas of further studies

The researcher recommends the following areas following areas for future researchers since the study was constrained by time factors and scope. This eventually limited the researcher from carrying out an in depth on emerging issues that came up during literature review. The areas includes;

- Monitoring loan portfolio performance among financial institutions in Uganda.
- Evaluation of bank's lending process and loan portfolio quality.
- An assessment of factor affecting portfolio performance in the banking sector.
- Measures to improve portfolio growth in financial institution in Uganda.

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APPENDIX I

MAKERERE UNIVERSITY

MAKERERE UNIVESITY BUSINESS SCHOOL

QUESTIONNAIRE ON IMPROVING LOAN PORTFOLIO MANAGEMENT

Dear Respondent,

I am a student of Makerere University Business School pursuing Master of Science in Banking and Investment Management of Makerere University. As part of my study programme, I am undertaking an investigation on the topic Improving Loan Portfolio Management at Orient Bank Limited. You have been selected as a respondent in the study because I believed you have information necessary for the successful completion of the research project.

This is therefore to request you to respond to the following questions by ticking the option that best suits your opinions. Please be assured that the data collected will be strictly confidential and used for academic purpose. To ensure anonymity, you are not supposed to write your name in the questionnaire.

Kindly spare **10-25** minutes to answer the questions and provide the valuable information following the directions in the questionnaire.

SECTION A: BACKGROUND INFORMATION

1. **Gender**: Male ▫ Female ▫
2. What is the level of your highest formal education attainment

   Bachelor Degree ▫

   Master Degree ▫

   PhD ▫

3. What is your age bracket(Tick the most appropriate)

20-25	25-30	30-35	35-40	40 above

4. How long Have you worked with this Bank

   Less than 5 years ▫ Less than 15 years ▫

   Less than 10 years ▫ More than 15 years ▫

5. Have you worked with other banks as a Credit Officer/Relationship Officer/Manager?

   Yes ▫ No ▫

SECTION B: PORTFOLIO MANAGEMENT

Please indicate the extent of your agreement and disagreement by ticking **(√)** or circling the appropriate number as provided below:

Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
1	2	3	4	5

A	**LENDING PROCESS AND PROCEDURES FOR LOANS**					
1	The bank starts its loan process after the borrower has applied for a loan.	1	2	3	4	5
2	The bank collects information on loan applicants before approving loans	1	2	3	4	5
3	The bank collects information on loan applicant's credit history and status using Credit Reference Bureau.	1	2	3	4	5
4	The Credit analyst checks the validity of information collected by Relationship Officers/Relationship Managers.	1	2	3	4	5

5	The bank collects information on loan applicants banking activity.	1	2	3	4	5
6	The reports compiled by the Relationship Officers about loan applicant are validated by Credit Analysts.	1	2	3	4	5
7	Credit Analyst vets the borrowers basing on the valid information collected by the Relationship Officers.	1	2	3	4	5
8	The loans are approved by Management Credit Committee or Board Credit Committee before prior disbursement of loans or funds	1	2	3	4	5
9	The Legal Team ensures that loans are given only to borrowers with perfected documentation details.	1	2	3	4	5
B	**ASSESSMENT OF LOAN PORTFOLIO PERFORMANCE**	**SCORES**				
1	It's very easy for the customer to get loans in the bank after they have put in their requests.	1	2	3	4	5
2	The lending process takes relatively a short time thus favouring the customer's needs.	1	2	3	4	5
3	The established/recommended lending process and procedure in the bank is strictly followed from the credit officer to the approval.	1	2	3	4	5
4	The draw down process by the credit admin team is strictly followed in terms of correct or set rates, amount, currency and accounts.	1	2	3	4	5
5	Relationship Officers/Managers ensure close monitoring of the borrower after money has been availed to them through frequent visits.	1	2	3	4	5
6	As a Relationship Officer I review the bank borrower's accounts daily to confirm that they still consistently bank with the bank.	1	2	3	4	5

7	As Credit Officer I review the various reports (arrears, excess, overdrawn accounts without limits) to ensure the clients don't become bad debtors.	1	2	3	4	5
8	As Relationship Officer/Credit Officer I reminds the bank borrower in my portfolio at least a day before their due date to clear their due installment.	1	2	3	4	5
9	As Credit Officer/Relationship Officer I duly update the clients file with all new information that I collect about any new developments.	1	2	3	4	5
10	As Credit Officer once I find any anomaly with the borrowers financed project I duly inform my immediate supervisors.	1	2	3	4	5
11	As Credit Officer/Relationship Officer I have a strong relationship with my client that incase of ups and downs in business I advice accordingly.	1	2	3	4	5
C	**MEASURES TO IMPROVE LOAN PORTFOLIO PERFORMANCE**	**SCORES**				
1	The Credit Officers/Relationship Officers should carry out a thorough sourcing for borrowing clients with due diligence.	1	2	3	4	5
2	The Credit Analysts should always adhere to all requirements on the credit policy/manual when vetting the loan proposals.	1	2	3	4	5
3	The Approval Committee should ensure that the loan proposals are in line with the bank credit policy and manual before approving the loans to clients.	1	2	3	4	5
4	The Legal Department should ensure that all necessary security	1	2	3	4	5

	documents are perfected to safe guard the bank in case of default.					
5	The Credit Administration Department should ensure that all disbursements are in line with the approved loan parameters.	1	2	3	4	5
6	The Credit Officers should closely monitor the performance of their clients/borrowers after money has been disbursed.	1	2	3	4	5
7	The Credit Administration Department should closely monitors the performance of borrowers in terms of arrears, loans in excesses, overdrawn accounts without limits consistently and alerts Relationship Officers/Credit Officers.	1	2	3	4	5
8	The Supervisors should ensure that Credit Officers call all clients who have not paid on the second day past due date.	1	2	3	4	5
10	The bank should ensure that Credit Officers/Relationship Officers issue all clients in default for more than 14 days with a second reminder letter.	1	2	3	4	5
11	The bank should ensure that the Credit Officers/Relationship Officers present all cases above thirty days in arrears to the Recovery Team.	1	2	3	4	5

Thanks for your participation.