

Performance of Foreign African Commercial Banks in Uganda

Frederick Nsambu Kijjambu and John Ddumba-Ssentamu

The study extends the work of Nsambu- Kijjambu, (2014, 2015 and 2016) which focused on establishing key factors influencing the performance Commercial banks in Uganda, in the light of Global Advantage Theory. The analysis is supplemented by structure–conduct performance (SCP) and efficiency hypothesizes (ES).

The study analyses the performance of foreign African commercial banks on average, over the period 2003-2014, using Linear multiple regression analysis. The study findings show that, Liquidity, Capital adequacy, Cost efficiency, Management efficiency, Reputation/Goodwill are factors that influence the performance of foreign African commercial banks in Uganda.

The emerging policy implication is that commercial banks' managements should focus on improving: on costs of intermediation is crucial to improve on cost efficiency and also to protect depositors. From a regulatory perspective, the policy instruments should be able to curtail volatility in interest rate spreads.

liquidity levels were found to be central to performance, therefore focus should be on determining optimum liquidity levels otherwise, higher liquidity levels lead to lower bank profitability of commercial banks, while very low liquidity levels creates bank operational risk. From a regulatory perspective, monetary policy regulations should not enforce high liquidity among commercial banks, since it has a negative impact on bank performance; neither should the policy set low liquidity levels which can lead to high costs of capital, through borrowed capital. Managements of commercial banks should focus on improving: management efficiency; bank reputation/goodwill; credit risk management; capital adequacy levels; diversification and investment.

Key words: Bank performance; Foreign African commercial banks and internal factors.

Introduction

This study extends the work of Nsambu- Kijjambu, (2014, 2015 and 2016) which focused on establishing key underlying factors responsible for performance of commercial banks in Uganda, analyzed in light of Global Advantage Theory. The study is supplemented by structure–conduct performance (SCP) and Efficiency hypothesizes (ES). This study defines Foreign African commercial banks in Uganda as those foreign commercial banks in Uganda

Dr. Frederick Nsambu Kijjambu, Department of Accounting and Finance, Mbarara University of Science and Technology, Uganda, Email: nsambu@hotmail.com

whose parent country is within Africa. This study specifically center attention on establishing factors that influence the performance of Foreign African Commercial Banks in Uganda

1.1 Background

The financial sector reforms Uganda implemented were aimed at achieving efficiency in financial intermediation on the one hand and strengthening the banking sector through efficient and effective supervision by the central bank study on the other (Bategeka and Okumu, 2010). The improvement in the Ugandan banking sector attracted many foreign commercial banks. Whereas there was impressive improvement for banking system as a whole, the performance of foreign commercial banks remained quite steady and even improved while domestic commercial banks suffered massive decline in their profitability and accumulated more non-performing loans (Mpuga, 2002).

By the end of 2014, the Ugandan banking sector had attracted twenty one foreign commercial banks (Bank of Uganda, 2014). Uganda has total of twenty five commercial banks as at 31st December 2014 with a network coverage of 564 commercial bank branches country-wide (Bank of Uganda, 2014). Out of the twenty one foreign commercial banks; 15 were foreign African commercial banks, 6 Non-Foreign African commercial banks and 4 domestic commercial banks. The observation suggests that 71.4% of foreign commercial banks in Uganda are foreign African commercial banks. The implication is that foreign African commercial banks should be playing a significant role in the overall performance of Uganda's commercial banking sector.

The trend became a source of contention which needed to be investigated. It is against this background that the aim of this study, was to find answers to the following question; 'What are the factors that influence the performance of foreign African commercial banks in Uganda?'

1.2 Statement of the Problem

The improvements in financial intermediation efficiency have caused repercussions on the performance of commercial banks in Uganda, leading to the closure of several commercial banks most of which are either domestic or foreign African commercial banks in Uganda.

In 2013, Fina Bank (Uganda) with majority shares being owned by Fina group Kenya was acquired by GT bank and thereafter rebranded. In 2014, Bank of Uganda revoked the license of Global Trust bank (U) limited formerly owned by Nigeria's largest Insurance company. On

13th October 2015, the management of Imperial bank (U) limited previously owned by Imperial Bank (K) limited was taken over Bank of Uganda under section 88 and 89 of the Financial Institution Act 2004 and later taken over by Exim Bank (Uganda) Limited. The trend suggests that foreign African commercial banks in Uganda may be declining in performance that calls for investigation.

1.3 Objective of the study

Specifically, the study intends to establish the impact of internal factors on the performance of foreign African commercial banks in Uganda, so that remedial action is taken up to enhance their performance.

1.4 Research Hypotheses

In order to establish why Foreign African commercial banks are declining in performance and what fundamental key internal factors are responsible for such performance. The study is based on the following key hypothesis:

Hypothesis:

H₀: There are no significant key internal factors responsible for performance of Foreign African commercial banks in Uganda

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

1.5 Significance of the Study

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

1.6 Organization of the paper

The paper is organized as follows; Section one provides the background of the study, putting it in a distinctive position in the context of active bank behavior in Uganda. It explains the problem under study; objectives; scope; significance and the guiding hypothesis.

The rest of the paper is organized as follows; Section two presents empirical literature on

factors affecting performance of foreign commercial banks. This is followed by Section three which describes and explains the methodological approach used. Section four presents the findings and discussion of the factors responsible for performance of foreign African commercial banks in Uganda. Finally, Section five presents conclusions together with emerging policy implications and suggested future studies

1.7. Literature review

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

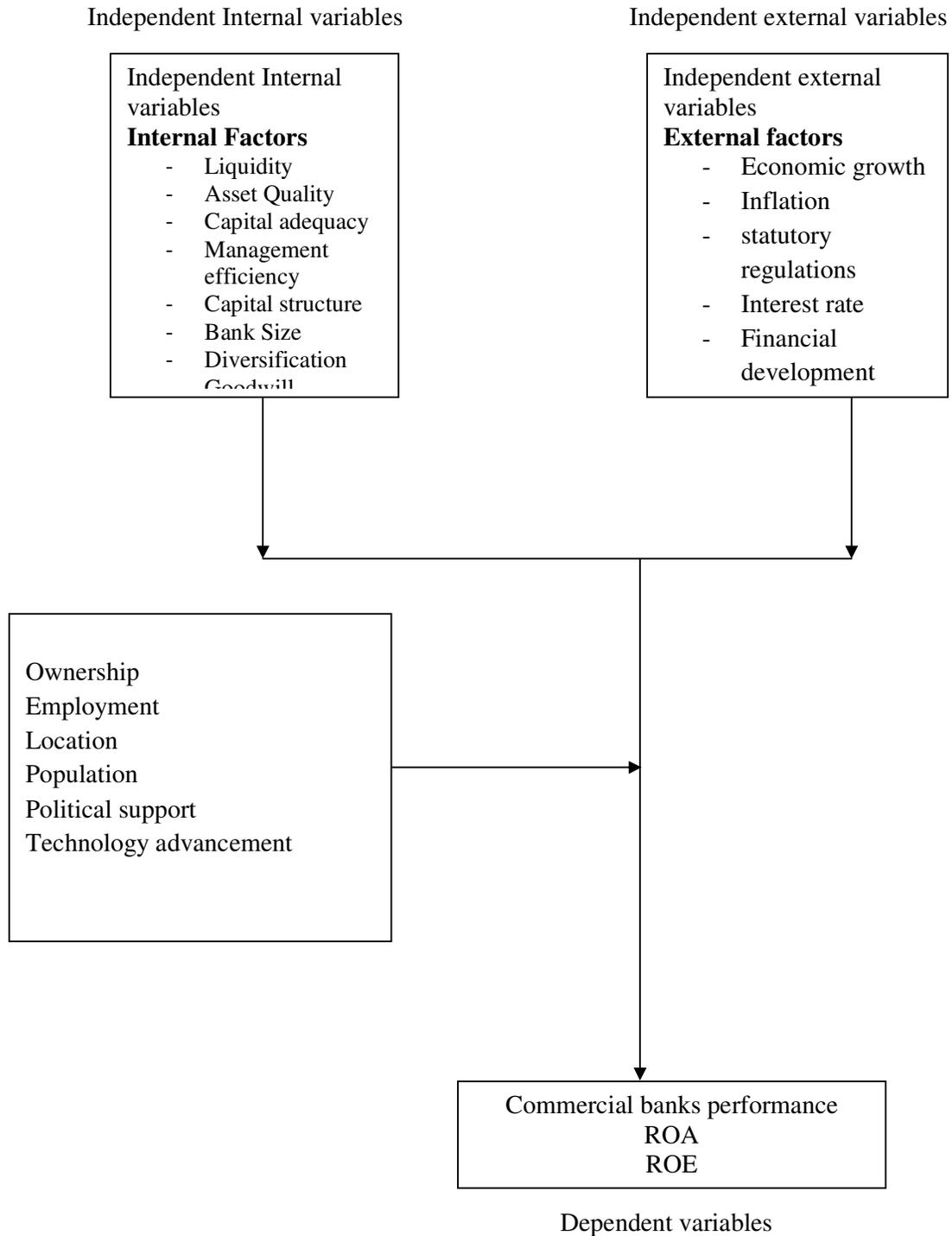
The theoretical framework developed, relies on and extends the works of; Dunning (1977, 1981); Markusen, (1995), Markusen and Venables, (1995), whose empirical findings gave rise to the New Trade Theory. Dunning (1977, 1981) provides that, the New Trade Theory is based on three concepts: ownership advantages, location advantages and internalization advantages. These advantages imply that, foreign banks bring in knowledge- based assets not readily available in the host countries and thus outperform domestic banks. In this study these variables; ownership and location are assumed to be intervening variables. Berger et al., (2004), indicated that ownership advantages in form of intangibles, customer-specific and knowledge –based assets are important for providing credit to small and medium sizes enterprises (SMEs), although, their scope of applicability of the concept seem to be narrow and specific to SMEs.

The study by Berger et al, (2004), showed that, location advantages are essential for providing on-site access to retail banking customers; while internalization advantages in form of

information spillover are important for joint provision of credit, cash management, investment banking and other financial services to large corporate customers. Demirgüç-Kunt and Huizinga, (1999) stressed that differences in interest margins and profitability among commercial banks, reflected a variety of determinants, many of which related to the environment in which banks operate. These are referred to as external factors. Consequently the theoretical framework was developed (figure 1). It indicates the inter-relatedness among Internal, External and intervening variables.

The theoretical framework shows the relationship dependent variables (ROA and ROE) and explanatory (internal and external) variables. The framework further shows the intervening variables that have an influence on internal and external factors and ultimately the performance of commercial banks. However, the intervening variables are taken to be control variables in this study.

Figure 1: Theoretical Framework



Source: Adopted from Ongore and Kusa (2013)

Miller and Parkhe,(2002), found out that the variations in commercial bank performance was due to the fact that foreign banks face competitive disadvantage in the host country, due to information asymmetries, cultural and language differences.

Demirgiic-Kunt and Huizinga (2000) found out that foreign banks generated higher interest margins and profits in developing countries than domestic banks. The variation in commercial bank performance was thus reported to have been due to high technology reflected in foreign banks.

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

Bikram (2003) carried out a study on bank ownership and performance among Indian commercial banks categorized into; Public domestic banks, Old private banks (domestic) and new private banks (Foreign); the results indicated that, Public banks consistently had higher levels of net interest margins, mainly because of access to low cost funds and having been in business for a longer period, compared to new and private banks.

The findings also indicated that the high interest margin was a result of charging high rates of interest on loans given to small and medium enterprises, taking advantage of their large network, relative to other private commercial banks that were at the disadvantage of branch outreach.

However, the new banks had lower operating cost ratio compared to Public banks, which had significantly higher cost operating ratio due to their wide branch networks. The outcome of this study indicated that, the causes of commercial bank performance variations were from cheap sources of funds, branch networks, age and differences in interest spreads. The new private foreign banks performed better than public and old banks, partly because of being smaller and well managed networks, together with automated and modernized systems which included diversification to fee-based activities.

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

Havrylchyk (2006) investigated the efficiency of polish banking industry and found out that, foreign banks were more efficient than domestic banks due to; Loan portfolio quality, higher productivity of labour and market power.

Sturm et al, (2007), On the contrary, found out that increased domestic market incumbency reduced the efficiency of foreign banks in the host markets and thus performed differently, compared to domestic banks, unless foreign banks overuse inputs to produce the required outputs.

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

There is a possibility that foreign banks cherry-picked the best borrowers, especially from their countries of origin to have greater loan intensity and less non-performing loans, thereby improving the quality of their portfolio and ultimately increasing efficiency (Fadzlan et al, 2008).

Kiyota (2009), in the comparative analysis of cost and profit efficiency of domestic and foreign-owned banks in Sub-Saharan African countries suggested that foreign banks out-

performed domestic banks. Justifying that, the difference in performance was associated with the extent to which bank management uses funds for unproductive uses (Kiyota 2011).

Claessens and Horen (2009) found out that foreign banks that have operated for more than eight years in a country had the best performance. The implication was that the more years, a foreign bank has been active in the host country, the better the performance.

Claessens et al (2009) further, indicated that performance variation among commercial banks depends on competition in the host country; explaining that if there is little competition in the host country, foreign banks out-perform domestic banks, by generating super normal profits.

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

1.8. Methodology

This section presents descriptive statistics; correlation matrix; model specification and empirical findings on African foreign commercial banks

1.8.1 The Study population

The study population included all the fifteen licensed foreign African commercial banks in Uganda as at 31st December 2014, (Bank of Uganda, 2014). Foreign African commercial banks that were closed or acquired during the year of income were excluded

1.8.2. Scope of the Study

The study focuses on performance of foreign African commercial banks, purposely to establish the key underlying internal factors responsible for the banks' performance in Uganda. The time scope for the study is 2003-2014; a period during which the commercial banking sector in

Uganda underwent significant restructuring including among others: Banking sector liberalization. In addition, the main aim of choosing this particular period was to utilize the most recent financial data from commercial banks in Uganda.

1.8.3 Bank performance Measure

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

1.8.4 Dependent variables

This study used Return on Assets (ROA) and Return on Equity (ROE) as the dependent variables, like the studies of; Ongore and Kusa (2013); Trujillo-Ponce, (2012); Davydenko, (2011); Sehrish et al.,(2011); Oladele et al (2011) Bennaceur and Goaid (2008); Kosmidou (2008), among others. Consequently, ROE is also adopted for this the study.

1.8.5 Independent variables

The independent variables were represented by bank specific factors in form of ratios.

Table 1 Internal and External factors on bank performance

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

Source: Nsambu Kijjambu, 2014, 2015, 2016)

1.8.6 Model specification

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

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

$$Y_{it} = f(\alpha_0 + \alpha_1 EA_{it} + \alpha_2 LA_{it} + \alpha_3 LLPTL_{it} + \alpha_4 INTEXEQ_{it} + \alpha_5 INVESTTA_{it} + \alpha_6 NIMTA_{it} + \alpha_7 FL_{it} + \alpha_8 LLIFE_{it} + \alpha_9 OPEXTI_{it} + \alpha_{10} NIITI_{it} + \dots + \alpha_{11} GDP + \alpha_{12} CPI + \alpha_{13} BIR) + e_{it}$$

(1)

Where; e_{it} is the error term.

Model assumptions

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

1.8.7 Model measurement

$$Y_{it} = f(\alpha_0 + \alpha_1 LA_{it} + \alpha_2 EA_{it} + \alpha_3 INTEXEQ_{it} + \alpha_4 OPEXTI_{it} + \alpha_5 LLIFE_{it} + \alpha_6 NIITI_{it} + \alpha_7 CPI_{it}) + e_{it} \quad (2)$$

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

$$Y_{it} = f(\alpha_0 + \alpha_1 LA_{it} + \alpha_2 EA_{it} + \alpha_3 INTEXEQ_{it} + \alpha_4 OPEXTI_{it} + \alpha_5 LLIFE_{it} + e_{it}) \quad (3)$$

RESULTS AND DISCUSSION

This section presents descriptive statistics; correlation matrix; model specification and empirical findings for African foreign commercial banks.

Table 2. presents the average performance of Foreign African commercial banks represented by ROA and ROE over the period of 12 years 2003-2014.

Descriptive Statistics

Table 2: Descriptive Statistics for African foreign commercial banks

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	12	.0090	.0410	.030667	.0087421
ROE	12	.0790	.4460	.259000	.1121849
LA	12	.1780	.5490	.380000	.1239501
EA	12	.0730	.2840	.136583	.0704459
INTEXEQ	12	.0370	.1700	.116667	.0332356
OPEXTI	12	.5000	.7110	.581000	.0579153
LIFFE	12	.8260	10.5000	1.793417E0	2.7439799
NIITI	12	.2680	.4690	.373000	.0603686
CPI	12	-.0030	.1870	.072417	.0535409
Valid N (listwise)	12				

The results indicate that, Foreign African commercial banks had less returns on assets. The average return on assets is 0.0306, while return on equity is slightly higher, amounting to 0.259.

Descriptive statistics in table 2 indicate that, Foreign African commercial banks have low Equity to Asset ratio (EA) of 0.136. This implies that on average Foreign African commercial banks are not well capitalized, which reflects a weak position to withstand financial risk. The ratio; LA of 0.38 indicates that, Foreign African commercial banks in Uganda are moderately placed as far as liquidity position is concerned, but this situation may hamper profitable investment opportunities, thus lower profitability if not managed properly.

The ratio; INTEXEQ for Foreign African commercial banks is 0.1166. This implies that, Foreign African commercial banks are well placed as far as cost efficiency is concerned although, deposits mobilization may be affected. However, OPEXTI has the highest mean ratio of 0.581 among independent variables. The results indicate that, Foreign African commercial banks are operating with moderately high expenditure costs which normally have a negative impact on bank profitability. The ratio non-interest income (NIITI) has a mean of 0.373 over the period of twelve years which indicates that, Non-traditional bank activities contribute to the performance of Foreign African commercial banks in Uganda.

Correlation Matrix

Table 3: Correlation Matrix (ROA dependent variable)

		ROA	ROE	LA	EA	INTEXEQ	OPEXTI	LIFFE	NIITI	CPI
Pearson Correlation	ROA	1.000								
	ROE		1.000							
	LA	-.305	-.532	1.000						
	EA	.336	-.641	.172	1.000					
	INTEXEQ	-.583	.031	.307	-.559	1.000				
	OPEXTI	-.818	-.228	.371	-.539	.660	1.000			
	LIFFE	-.180	.109	-.538	-.228	-.080	-.136	1.000		
	NIITI	-.157	-.660	.261	.560	-.362	.002	-.055	1.000	
	CPI	-.026	.085	.569	-.232	.424	.235	-.466	-.434	1.000

Table 3 presents information on the degree of correlation between explanatory variables used in multiple linear regression analysis for African foreign commercial banks. There is no Multicollinearity problem among variables given that correlation coefficients are all below 0.80 (Kennedy 2008).

Table 3 presents Correlations Matrix for the variables in the model for foreign African commercial banks in Uganda. There is a positive correlation of EA with ROA for Foreign African commercial banks in Uganda. The observations are similar to the findings of Staikouras and wood, (2003) and Athanasoglou et al., (2008) who found that, EA has a positive relationship with profitability and ultimately bank performance.

The ratio LA has a negative correlation with ROA. The observations suggests that, Foreign African commercial banks might have lost profitable investments at the cost of being more liquid, similar to the findings of Ong Tze and Teh Boon Heng (2013) who pointed out that liquid assets are associated with lower rate of return. On the other hand, the results contradict with the findings of Heffernan and Fu (2008) together with Athanasoglou et al., (2006); who found out that, liquidity has a positive relationship with ROA and ROE.

The ratio of operating expenses to total income (OPEXTI) has a significant negative relationship with ROA. The observations suggest that operating expenses have a negative impact on bank performance for foreign African commercial banks in Uganda. LLIFE represents banks' reputation (Goodwill). The results indicate a negative relationship with ROA for African foreign commercial banks, contrary to the expectations.

Non-Interest Income to total income (NIITI) has insignificant negative relationship with ROA which indicates that, diversification activities among Foreign African commercial banks are still underdeveloped. Inflation, measured by CPI has insignificant relationship with returns on Assets.

Table 3 presents correlation matrix for Foreign African commercial banks when ROE is also a dependent variable. LA; EA; OPEXTI and NIITI have a negative relationship with ROE. However, the relationship between ROE and the independent variables; INTEXEQ; LIFFE and CPI have a positive relationship though insignificant.

Model measurement

Foreign African commercial banks

$$Y_{it} = f(\alpha_0 + \alpha_1 LA_{it} + \alpha_2 EA_{it} + \alpha_3 INTEXEQ_{it} + \alpha_4 OPEXTI_{it} + \alpha_5 LLIFE_{it} + \alpha_6 NIITI_{it} + \alpha_7 CPI_{it}) + e_{it} \quad (2)$$

Extending equation to exclude variables; NIITI and CPI that had weak impact on African foreign commercial banks' performance (Appendix A9), the following baseline model is used:

$$Y_{it} = f(\alpha_0 + \alpha_1 LA_{it} + \alpha_2 EA_{it} + \alpha_3 INTEXEQ_{it} + \alpha_4 OPEXTI_{it} + \alpha_5 LLIFE_{it} + e_{it}) \quad (3)$$

Table 4: Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.917 ^a	.842	.710	.0047102	2.762

a. Predictors: (Constant), LIFFE, INTEXEQ, LA, EA, OPEXTI

b. Dependent Variable: ROA

In the model summary; table 4, R= 0.917 which means that, there is a strong relationship between dependent and independent variables. R-square is 0.842 which indicates that, 84.2% of the variation in performance is accounted for by the combined linear effects of predictors (independent variables). Adjusted R square value is 0.710, implying that, the model has accounted for 71% of the variance in the dependant variable (ROA).

The Durbin-Watson statistic is 2.762. This means that, there is no serious first order autocorrelation which is neither positive nor negative, at 5% level of significance.

Table 5: ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1Regression	.001	5	.000	6.379	.022 ^a
Residual	.000	6	.000		
Total	.001	11			

a. Predictors: (Constant), LIFFE, INTEXEQ, LA, EA, OPEXTI

Table 5 tests the general form of the model:

H₀: None of the independent variable is a significant predictor of the dependent variable; ROA.

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

Conditional Rule: .Reject H₀ if p-values are less than 0.05 and accept H₁

Since the p-value is 0.022 which is less than 0.05, H₀ is rejected and conclude that; are LIFFE, INTEXEQ, LA, EA and OPEXTI predictors ROA for Foreign African commercial banks performance in Uganda.

Table 6. Presents the model summary when ROE is used as dependent variable.

Table 6: Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.992 ^a	.984	.970	.0194543	2.722

a. Predictors: (Constant), LIFFE, INTEXEQ, LA, EA, OPEXTI

b. Dependent Variable: ROE

In the model summary in table 6, R = 0.992 which means that, there is a very strong relationship. R-square is 0.984 indicating that, 98.4% of performance variation is accounted for through the combined linear impact of predictors (independent variables). The adjusted R square value is 0.970 which means that the model has accounted for 97% of the variance in the criterion variable. The Durbin-Watson statistic is 2.722. This means that, there is no serious first order autocorrelation which is neither positive nor negative, at 5% level of significance when ROE is a dependent variable.

Table 7: ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.136	5	.027	71.957	.000 ^a
Residual	.002	6	.000		
Total	.138	11			

a. Predictors: (Constant), LIFFE, INTEXEQ, LA, EA, OPEXTI

b. Dependent Variable: ROE

Table 7 tests the general form of the model:

H₀: None of the independent variables are significant predictors of the dependent; ROE.

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

Conditional Rule: .Reject H₀ if p-values are less than 0.05 and accept H₁

Since the p-value is 0.000 which is less than 0.05, H₀ is rejected and conclude that; at least one of the independent variables are predictors of African foreign commercial banks performance in Uganda. The model is significant at F_{7,4}=71.957, p < 0.05.

2 Empirical Findings for foreign African commercial banks in Uganda

Multiple linear regression results focusing on the impact of internal factors on the performance of foreign African commercial banks are shown in the table 8 and 9, using ROA and ROE as dependent variables respectively.

Table 8: Regression Coefficients^a for African foreign commercial banks

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	.126	.021		6.001	.001		
LA	-.007	.016	-.097	-.424	.687	.502	1.993
EA	-.042	.030	-.336	-1.385	.215	.448	2.234
INTEXEQ	-.047	.063	-.180	-.753	.480	.463	2.158
OPEXTI	-.137	.037	-.905	-3.674	.010	.435	2.299
LIFFE	-.001	.001	-.446	-2.284	.062	.691	1.448

a. Dependent Variable:

ROA

The results of Variance Inflation Factor (VIF) are all below 10 and Tolerance values (Tol) are greater than 0.1. This implies that, there is no problem of Multicollinearity in the model. The assumption of homoscedasticity is satisfied; implying that, the variances of errors of prediction are constant for all predicted values; therefore the possibility of committing type I or II error is eliminated.

The results in table 8 indicate that, operating expenses to total income (OPEXTI) have a highly significant negative impact on returns on assets for foreign African commercial banks over the period of study. The results are similar to the findings on domestic commercial banks in Uganda; Nsambu Kijjambu(2014), which is in line with previous studies of Oladele et al., (2012); Trujillo-Ponce (2012); Hoffmann, (2011); Davydenko, (2011); Olson and Zoubi (2011); Sufian, (2010); Sufian and Habibullah (2009); Sufian and Chong (2008); Grigorian and Manole, (2006) together with Fries and Taci, (2005),who found out that cost to income ratio had a significantly negative, impact on bank performance. This implies that higher operating expenses decrease profitability and eventually overall performance of the foreign African commercial banks in Uganda.

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

Capital adequacy EA has a negative significant impact on ROA for African foreign commercial banks, consistent with the impact of capital-asset ratio on ROA and ROE for Ugandan domestic commercial banks (Nsambu Kijjambu 2014). The result suggests that a higher capital ratio leads to or predicts lower profitability. The results supports efficiency-risk hypothesis which suggests that more efficient banks tend to choose low capital ratios since greater profit efficiency substitutes equity capital. The results imply that an excessively high capital ratio symbolizes that a bank is operating conservatively and ignoring potential profitable investment opportunities.

The ratio; interest expense to equity capital (INTEXEQ) has a significant negative impact on ROA. The results are similar to the findings of Hoffmann, (2011) who indicated that, there was a strong negative relationship between interest expenses (INTEXP) and profitability in US banking industry. The implication is that deposit interest expenses have contributed to performance variations among commercial banks in Uganda over the study period. Inflation measured by consumer price index (CPI) has a positive but insignificant impact on ROA for Foreign African commercial banks over the period. Although, the impact is insignificant, the results indicate that management of foreign African commercial banks predicted the trend of inflation correctly.

Liquidity ratio (LA) has a moderately significant negative impact on ROA for Foreign African commercial banks over the period. The results are consistent with findings of Sufian (2011); Davydenko, (2011) and Deger and Adem (2011), whose regression results indicated that liquidity had a negative impact on bank profitability. The implication is that, there is a lot of redundant working capital unutilized, at the cost of being more liquid, symbolizing weak credit risk management. The results suggests that, Foreign African commercial banks might have lost profitable investments at the cost of being more liquid, consistent with the findings of Ong Tze

and Teh Boon Heng (2013) who pointed out that liquid assets are associated with lower rate of return. On the other hand, the results contradict with the findings of Heffernan and Fu (2008) together with Athanasoglou et al., (2006); who found out that, liquidity has a positive relationship with ROA and ROE among commercial banks.

Table 9: Regression Coefficients^a for African foreign commercial banks

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.494	.087		17.174	.000		
LA	-.227	.067	-.251	-3.395	.015	.502	1.993
EA	-1.790	.124	-1.124	-14.385	.000	.448	2.234
INTEXEQ	-.167	.259	-.049	-.642	.544	.463	2.158
OPEXTI	-1.474	.154	-.761	-9.599	.000	.435	2.299
LIFFE	-.016	.003	-.389	-6.182	.001	.691	1.448

a. Dependent Variable:

ROE

Table 9 shows that Variance Inflation Factor (VIF) are all below 10 whereas Tolerance values are greater than 0.1. This indicates that, there is no problem of Multicollinearity in the model. The results show that all explanatory variables; LA; EA; OPEXTI; INTEXEQ and LIFFE have significant negative impact on return on equity.

Capital adequacy measured by EA has a significant negative impact on return on equity (ROE). The results are consistent with the results of domestic commercial banks in Uganda, Nsambu Kijjambu (2014), together with the findings of Sehrish et al, (2011) and Hoffmann, (2011) who found a significant negative impact of capital on bank profitability. This implies that, Foreign African commercial banks are operating over-cautiously, hence avoiding potential profitable ventures. The results suggest that setting up high capital regulatory requirement, has a negative impact on commercial banks' performance.

Liquidity ratio (LA) has a significant negative impact on ROE for Foreign African commercial banks over the period. The results are consistent with the findings of Sufian (2011); Davydenko, (2011); Deger and Adem (2011), together with Said and Mohd (2011) whose

regression results indicated that, liquidity had a negative impact on bank profitability. The implication is that there is a lot of redundant working capital unutilized, at the cost of being more liquid which leads to insufficient credit risk management.

Operating expenses to total income (OPEXTI) has a highly significant negative impact on returns on equity for Foreign African commercial banks over the period of study. The results are consistent with the findings on domestic commercial banks in Uganda, Nsambu Kijjambu(2014) . The results are also consistent with the findings of Oladele et al., (2012); Trujillo-Ponce (2012); Hoffmann, (2011); Davydenko, (2011); Olson and Zoubi (2011); Sufian, (2010); Sufian and Habibullah (2009); Sufian and Chong (2008); Grigorian and Manole, (2006) together with Fries and Taci, (2005) who indicated that, the cost to income ratio had a significantly negative impact on bank performance. This implies that higher operating expenses decrease profitability and eventually overall performance of the Foreign African commercial banks in Uganda.

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

Interest expense to equity capital (INTEXEQ) has a significant negative impact on return on equity for Foreign African commercial banks in Uganda over the period 2003-2014. The results are consistent with the findings of Hoffmann, (2011), who indicated that, there was a significant negative impact of interest expenses (INTEXP) on profitability in US banking industry. This implies that the higher the interest expenses, the lower the return on equity. The implication is that, interest rate paid on deposits should be efficiently managed so that, the rate paid on deposits should not discourage savings at the same time have a minimum impact on bank profits.

Test of hypothesis

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

H₀: independent variable; LA; EA; OPEXTI and LIFFE is not significant predictor of the dependent variable (ROE)

H₁: Each independent variable; LA; EA; OPEXTI and LIFFE is significant predictor of the dependent variable (ROE)

The decision rule is; if $p < 0.05$ rejects H₀, and conclude that Independent variable is a significant predictor of ROE. Since the p- values for LA; EA; OPEXTI and LLIFE are less than 0.05, H₀ is rejected and concludes that; LA; EA; OPEXTI and LLIFE are significant predictors of ROE for Foreign African commercial banks at 5% lever of significance, However, INTEXEQ is not a significant predictor of return on equity

3 Conclusion

The study concludes that the following factors affect performance of Foreign african commercial banksover the period 2003-2014.

Liduidity measured by total loans to total assets, is a factor affecting performance of Foreign african commercial banksin Uganda over the period 2003-2014. Total loans to total assets has a significant negative impact of -0.097 and -0.256 on return on assets and equity respectively.

Capital adequacy measured by Equity Capital ratio to Assets (EA) is a significant factor affecting performance of Foreign african commercial banksin Uganda over the period 2003-2014. Capital to assets has a significant negative impact of -0.336 and -1.124 on return on assets and equity respectively, over the period of study.

Cost efficiency measured by Interest expenses to Equity (INTEXEQ) is a significant factor which affects the performance of foreign African commercial banks over the period 2003-2014. Interest expenses to Equity have a significant negative impact of -0.180 and -0.049 on return on assets and equity respectively over the period of study. The study concludes that cost efficiency, a reflection of intermediation costs, affects performance of foreign African commercial banks in Uganda over the period of study

Management efficiency measured by Operating costs to Total Assets (OPEXTI) is a significant factor that affects the performance of foreign African commercial banks in Uganda over the period 2003-2014. Operating costs to Total Assets has a significant impact of -0.905 and -

0.761 on return on assets and equity respectively for Foreign African commercial banks in Uganda over the period 2003-2014.

Reputation/Goodwill measured by Logarithm of number of years (LIFFE), is another significant factor that affects the performance of foreign African commercial banks in Uganda over the period 2003-2014. Goodwill (LIFFE) has a significant negative impact of -0.446 and -0.389 on return on assets and equity respectively for foreign African commercial banks over the period 2003-2014.

Policy implications and Recommendations

The policy implication emerged from this study include the following;

A policy on efficient management should be put in place for bank operational expenses. This should be done by finding ways to obtain the optimal utilization of resources during production of banking products and services. In other word, policy instruments should be able to reduce operational expenses through cost decisions. From a regulatory perspective, commercial bank performance should be based on individual commercial banks' efficiency.

Policy on credit risk management should be enhanced in order to improve on Asset quality, thus minimizing non-bank performing assets. Consequently, strong monitoring and control of assets should be exercised by both bank management and regulatory authority.

A policy on costs of intermediation is crucial to improve on cost efficiency and also to protect depositors. From a regulatory perspective, the policy instruments should be able to curtail volatility in interest rate spreads.

A policy on liquidity levels is central to determine optimum liquidity levels otherwise, higher liquidity levels lead to lower bank profitability of commercial banks, while very low liquidity levels creates bank operational risk. From a regulatory perspective, monetary policy regulations should not enforce high liquidity among commercial banks, since it has a negative impact on bank performance; neither should the policy set low liquidity levels which can lead to high costs of capital, through borrowed capital.

A policy on diversification is important and a fundamental to better performance of commercial banks purposely to avoid relying more on traditional bank activities. A policy that encourages commercial banks to engage in Non-interest income activities since non-interest income has a positive impact on bank performance. However, the regulatory authority should come in and homogenize prices of such activities in order to protect bank clients from being exploited. The policy instruments should allow commercial banks to manage Non-bank financial assets and intermediaries, including insurance products and underwriting.

Recommendations for further research

The effect of Multicollinearity among variables never allowed testing the impact of all external factors on performance of Foreign African commercial bank in Uganda, consequently further research should be carried out, in order to establish the impact of external factors on performance of commercial bank. Further studies should be carried out to establish the optimum adequate capital required, to avoid significant negative impact on commercial banks performance in Uganda.

Future studies should focus on the relationship between number of branches and performance of commercial banks in Uganda, since there is a declining performance of bank profits while their branch net works are increasing (Bank of Uganda, 2011);

Given that high liquidity levels have negative impact on bank profitability (table. 9) of African foreign commercial, while, low liquidity levels lead to high capital costs, future studies should center on how to determine optimum liquidity levels, thus focus on the level of cash and cash equivalent in financial position of commercial banks. Future research should also be directed at focusing on the relationship between mode of entry and performance of commercial banks, since there is evidence to confirm that; majority of existing commercial banks (70%) during the period 2003-2014, entered the banking market as Greenfields.

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Appendix A8: Financial Ratios for African Foreign commercial banks; 2003-2014

2003-2014	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
ROE	0.446	0.357	0.323	0.329	0.361	0.251	0.167	0.079	0.236	0.162	0.9	0.124
ROA	0.032	0.04	0.034	0.03	0.037	0.033	0.022	0.009	0.031	0.023	0.013	0.019
LA	0.215	0.242	0.278	0.469	0.425	0.469	0.477	0.503	0.549	0.537	0.486	0.498
EA	0.073	0.111	0.106	0.092	0.103	0.134	0.131	0.11	0.131	0.144	0.144	0.15
LOGTA	2.358	2.401	2.448	2.492	2.536	2.439	2.409	2.525	2.578	0.051	0.042	0.0228
DEPTA	0.781	0.769	0.778	0.677	0.783	0.708	0.757	0.756	0.695	2.86	2.669	2.722
intexeq	0.127	0.125	0.081	0.119	0.119	0.134	0.17	0.144	0.131	0.226	0.178	0.149
INVESTTA	0.426	0.415	0.369	0.31	0.318	0.204	0.2	0.184	0.122	0.18	0.221	0.199
NIMTA	0.118	0.123	0.103	0.069	0.076	0.072	0.078	0.052	0.076	0.076	0.066	0.062
IETA	0.009	0.014	0.009	0.011	0.012	0.018	0.022	0.016	0.017	0.033	0.026	0.022
LLTA	0.005	0.002	0.001	0.003	0.003	0.004	0.007	0.008	0.008	0.027	0.02	0.011
FL	0.667	0.52	0.523	0.715	0.528	0.543	0.46	0.549	0.57	0.517	0.589	0.538
OPEXTA	0.096	0.125	0.107	0.077	0.08	0.073	0.096	0.089	0.088	0.044	0.081	0.08
OPEXTI	0.553	0.584	0.599	0.599	0.555	0.573	0.653	0.711	0.579	0.265	0.576	0.573
LLIFE	1.061	1.097	1.13	1.072	1.033	0.875	0.826	0.886	0.869	0.926	0.961	0.987
NIITA	0.046	0.077	0.067	0.048	0.055	0.037	0.047	0.058	0.059	0.058	0.049	0.053
GDP	5.734	5.764	5.818	5.856	5.905	5.971	6.04	6.084	6.141			
CPI	0.087	0.037	0.085	0.072	0.061	0.12	0.13	0.04	0.187			
BIR	0.193	0.129	0.158	0.138	0.166	0.162	0.106	0.084	0.167			

Source: Study computation using published individual commercial banks final accounts, 2014