EFFECTS OF TRADE FINANCE ON THE FINANCIAL PERFORMANCE OF BANKS

(A CASE OF FAMILY BANK LIMITED)

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D53/MSA/PT/21465/2010

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF KENYATTA UNIVERSITY

MAY 2013
DECLARATION

Declaration by the candidate

This research project is my original work and has not been presented to any university or college.

Signature Date 02/05/2013

MAGDALENE NZILA NTHENGE

D53/MSA/PT/21465/2010

Declaration by the supervisor

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Signature Date 25/01/2013

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Signature Date 16/5/2013

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DEDICATION

I dedicate this research project to my loving and caring dad Paul and mum Juliana to whom their quest and zest for education has seen me through my elementary, secondary and tertiary education. May the Almighty God give them more days on earth to enjoy its fruits.

My sincere gratitude goes to my beloved siblings Philip, Lucia, Mary and Joseph for their continued encouragement and moral support during the course. Your academic efforts made me aim higher to set a standard in the family, may the Lord our God bring into completion the good work He started in us as a family.
ACKNOWLEDGEMENTS

To my very helpful and able supervisor Mr. Samson Kaplelach and all the lecturers who helped me in different ways, thank you for choosing to help me throughout my studies, your insights and efforts were fruitful may the Almighty God bless you and your families.

Anthony, Zipporah and Mwongela your help and encouragement during my studies would not go unnoticed. You always found a reason and pleasure in helping me through the whole course, the MBA evening class: you people made the whole process of learning worth and enjoyable.

For all those who helped me in different ways may you all feel appreciated and God bless you.
ABSTRACT

This research project sought to find out the effects of trade finance on the financial performance of banks; a case study of Family Bank limited. The research project was divided into five chapters as follows: the first chapter dealt with a general overview of the trade finance, significance of the study to various stakeholders, scope and delimitation and definition of terms. The second chapter entailed review of different literature works done in relation to trade finance which included the theoretical review, literature review and conceptual framework. The third chapter basically concerned itself with research design, site description, target population, research instruments, data collection and analysis procedure. The fourth chapter was data presentation, discussion and interpretation of findings, while the last chapter dealt with summary, conclusion, recommendation, limitations and suggestions. The main objective of the study was to find out the effects of trade finance on the banks financial performance. It was guided by three research questions: what are the effects of letters of credit to the financial performance of the banks, how does guarantees affect the financial performance of Family Bank and lastly, what are the effects of collections to the banks financial performance? This was a case study which took a descriptive research design. The targeted population was sixty six credit supervisors of Family Bank limited, one from each branch. Stratified sampling technique was used to choose at least thirty three credit supervisors out of the total sixty six credit supervisors to manage a half of the population. Primary and secondary data that was published as financial statements was used. Data analysis included sorting, cleaning and organization of data from the filled questionnaires. The information was coded and entered into a spread sheet and analyzed using SPSS (statistical package for social sciences). Data was then presented using tables, graphs and pie charts.

Arising from the data analysis, presentation and interpretation, the research indicated that provision of trade finance products by the bank affected its financial performance through the revenues raised due to its provision. The researcher recommended that the bank should carry out training on staff to improve on their skills, make more elaborate and friendly procedures to allow more customers to participate in trade finance and leverage on the products which were not frequently offered. Further research on the effects of trade finance on overall banks performance was recommended.
<table>
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<th>ACRONYMS</th>
<th>Description</th>
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<tr>
<td>AGOA</td>
<td>African Growth and Opportunity Act</td>
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<td>CAMEL</td>
<td>Capital adequacy, Asset quality, Management quality, Earnings and Liquidity</td>
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<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<td>CRB</td>
<td>Credit Reference Bureau</td>
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<tr>
<td>DTM</td>
<td>Deposit Taking Microfinance</td>
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<td>EAC</td>
<td>East Africa Community</td>
</tr>
<tr>
<td>EPA</td>
<td>Economic Partnership Agreement</td>
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<td>EU</td>
<td>European Union</td>
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<td>FSD</td>
<td>Financial Sector Deepening</td>
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<td>IGAD</td>
<td>Inter-Governmental Authority on Development</td>
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<td>MOU</td>
<td>Memorandum of understanding</td>
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<td>MFC</td>
<td>Mortgage Finance Company</td>
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<tr>
<td>PSDS</td>
<td>Private Sector Development Strategy</td>
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<tr>
<td>RTGS</td>
<td>Real Time Gross Settlement</td>
</tr>
<tr>
<td>SWIFT</td>
<td>Society for Worldwide Inter-bank Financial Transfers</td>
</tr>
<tr>
<td>TIFA</td>
<td>Trade and Investment Framework</td>
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DEFINITIONS OF TERMS

Trade finance
It is defined as the science that describes the management of money, banking, credit, investment and asset for international trade transactions.

Letter of credit
It’s a bank’s promise to pay, issued by a bank on a request of the applicant in which the bank promises to pay the exporter (beneficiary) upon presentation of the documents specified in the LC.

Bill of exchange (B/E)
Also known as draft is an instrument normally used in the international commerce to effect payment. It is simply an order written by an exporter instructing an importer or its agent to pay a specified amount of money at a specified time.

Negotiable instrument
This is a draft that conforms to the following:

- It must be in writing and signed by the maker or drawer.
- It must contain an unconditional promise to overdraft to pay definite some of money.
- It must be payable on demand or at a fixed or determined future date.
- Lastly, it must be payable to order or to bearer.

Bank acceptances
This is when a draft is accepted by a bank. It is the unconditional promise of a bank to make payment on the draft when it matures.

Bill of landing (B/L)
It is issued to the exporter by a common carrier transporting the merchandise; it serves a receipt, as a contract and as a document of title.

Guarantees
This is an undertaking by a bank to pay the beneficiary a stated amount of money should a third party fail to perform as per the term of the contract.

Open Account
An open account transaction is a sale where the goods are shipped and delivered before payment is due.
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CHAPTER ONE: INTRODUCTION

1.1 Background of study

According to Moffat et al (2000), trade finance is the science that describes the management of money, banking, credit, investment and asset for international trade transactions. Most of the studies carried out about trade finance were based on how the provision of trade finance benefited the economy of a county. A study carried out by Marc Aubon (2007) and Summers L.H (2000) showed that trade finance played a great role in helping to grow the economy. Most of the financiers of trade finance were banks though it involved other practitioners such as importers, exporters and insurers.

Rules and regulations concerning trade in Kenya were overbearing. Control of the few documents required in trade finance was delegated to the banks which provided the same. They therefore found it important to develop regional trade and were engaged in expanding their regional network considerably as they opened new branches in Uganda, Tanzania, Rwanda, Burundi and even southern Sudan (Financial sector deepening report, 2009).

The banking industry in Kenya had forty four registered banks as at 31st December 2011. The industry was regulated by the central bank of Kenya. As a regulatory authority, the central bank took an initiative to publish the bank charges which had been very impressive. Its aim to draw borrowers’ attention to the cost issue was met with increased competition in the banking sector and more transparency which had brought down fees including those of trade finance products, (CBK Bank supervision annual report 2011).

Due to the increased competition there had been increased diversion from the provision of the traditional trade finance products like letters of credit, trade credit and documentary collection to more structured trade finance products like local purchase order financing. The main activities of banks were deposit taking, lending and investments. Trade finance provided a major avenue for lending rather than use of the traditional lending methods of loans and overdrafts.

Family Bank commenced operations in 1984 as a building society before it converted to a fully fledged commercial bank in the name of Family Bank Ltd on 1st May, 2007. The Bank had over the years continued to grow and expand its outreach. As at the time of research, she had a
customer base in excess of 800,000 clients, deposit base of over 10 billion, loans and advances at 8 billion and an asset base of 14 billion. The institution was under supervision of the Central Bank of Kenya (CBK) operating under the Banking Act and also a member of the deposit Protection fund (DPF). The institution had in successful years received satisfactory ratings from the central bank of Kenya in the areas of capital, asset quality, management, earnings and liquidity.

The bank’s mission statement was “To transform peoples’ lives by providing micro and other financial services through quality and reputable services. While her vision was “To be the financial institution that led in the positive transformation of peoples’ lives. The bank had a network of 66 branches. They were all inter-connected via Wide Area Network connectivity and transactions were effected online on a real time basis. The bank’s operations were fully automated. She provided a wide range of financial products and services which included accounts, credit and trade finance products to her customers. Family Bank was rated as the best bank in Tier 2 for banks holding assets between 5-15 billion, 3rd runners up in the best bank in Micro Finance and 5th overall out of the 46 banks, up from position eleven in the last survey by central bank in the year (2011). (www.familybank.co.ke).

The main aim of choosing Family Bank and doing a case study was to allow concentration into details and doing thorough work. Considering the fact that Family Bank had grown through the years from a building society to a bank, her customers were all across the whole sector of financial provision and had diverse composition of customers and therefore this had been portrayed in the products offered. For the sake of this study the researcher considered three main trade finance products: letters of credit, guarantees and collections. This was because they were the main trade finance products that appeared in the bank’s financial reports.

1.2 Statement of the problem
Trade finance involved the provision of finances to traders to facilitate their day to day trading activities. According to Moffet et al (2009), trade finance had been shifting away from the cumbersome methods of conducting business. As at the time of the research, 80% of global trade was conducted through an open account basis of buy now pay later. This was not always possible since the traders were not from the same region and therefore trusting someone who was
located in a different region may have created fears that the supplies made to them would not be paid for at the right time. The seller wants to receive pay for the goods before dispatching them while the buyer wants to pay for them on receipt of the goods. This dilemma was solved by the banks as they came in as intermediaries. Most of the studies carried out about trade finance were based on how the provision of trade finance benefited the economy of a county. A study carried out by Marc Aubon (2007) and Summers L.H (2000) showed that trade finance played a great role in helping to grow the economy. A research by Financial Sector Deepening (2009) and the Word Bank (2008) all focused on how banks could help to improve on trade finance provision. The above researches had been done on how the banks could help improve trade finance in order to develop a country’s economic standing. It was therefore important to find out how the banks benefited from offering trade finance by determining the effects of the trade finance on their financial performance of banks, hence the need for the study to fill in the gap. The contribution of trade finance products reported as off balance sheet financing was shown through the representation of information from the financial statements of the family bank for the first quarter of the bank’s financial performance for the years 2010, 2011, 2012. These were presented as follows:

Figure: 1.2 Family bank financial reports as at March 2010, 2011, 2012.

<table>
<thead>
<tr>
<th>YEAR(PERIOD)</th>
<th>PROFIT AFTER TAX</th>
<th>CUSTOMER DEPOSITS</th>
<th>TOTAL ASSETS</th>
<th>LIQUIDITY</th>
<th>OFF BALANCE SHEET FINANCING</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARCH, 2010</td>
<td>70769000</td>
<td>1070203300</td>
<td>13587561000</td>
<td>32.15%</td>
<td>376820000</td>
</tr>
<tr>
<td>MARCH, 2011</td>
<td>85270000</td>
<td>1594590600</td>
<td>20496785000</td>
<td>39.50%</td>
<td>227430000</td>
</tr>
<tr>
<td>MARCH, 2012</td>
<td>100124000</td>
<td>2251090100</td>
<td>28300485000</td>
<td>30.50%</td>
<td>508870000</td>
</tr>
</tbody>
</table>

Source: Family bank’s financial report
1.3 Objectives of the study

1.3.1 General objective
The general objective of the study was to find out the effects of trade finance on the banks financial performance.

1.3.2 The specific objectives.
The research was guided by the following specific objectives;

i. To find out the effects of letters of credit to the financial performance of Family Bank

ii. To explore the effects of guarantees to the bank’s financial performance.

iii. To examine the effects of collections to the bank’s financial performance.

1.4 Research questions
The research was aimed at answering the following questions.

i. What are the effects of letters of credit on the financial performance of the bank?

ii. How do guarantees affect the financial performance of Family Bank?

iii. What are the effects of collections to the bank’s financial performance?

1.5 Significance of the study
The study was important as it sought to find out whether participation in trade finance was bringing some revenue to the banks through the returns from the different products. The findings of the study would be used by different stakeholders in the banking sector to improve and sustain trade finance. The stakeholders are be discussed as follows:-

1.5.1 The Exporters and Importers
This study would enable them to identify the services that were offered through trade financing which would help them to ease their trading deals hence increased trading activity.
1.5.2 Investors

The research report enabled them to find out other outlets to invest in as brokers and agents in trade finance. Investors would find new avenues of improving or else increasing services offered through trade financing and therefore help them in tapping more profits.

1.5.3 Banks

It would help them to see the important part they play in economy and how much it was generating to the sector and finally get to see what other players were offering to the public. It would come as a challenge to help them open their eyes and see how much more that needed to be offered for consumption as trade finance products.

1.5.4 Share holders

The project report exposed to the shareholders in commercial banks the diversified trade finance products and how they improve the financial performance of the firms they have invested in.

1.5.5 The government

The government could have an insight on the much that was being generated from trade finance so that they could weigh the returns it was getting from her citizen’s involvement in trade finance. It also would enable her realize the need for improved trading conditions and good international relationships as it would go a long way in increasing the sustainability of trade finance and improving on the economic performance of the country.

1.6 Scope of the study

The research was a case study of Family Bank limited. It encompassed looking at the trade finance products at family bank and it targeted the credit supervisors. The bank had a population of sixty six branches from which a sample of thirty three branches were chosen.

1.7 Limitations of the study

The main limitation were the fact that the data had to be provided and adopted as obtained from the respondents from the individual branches and the researcher was bound to adopt such.
1.8 Delimitations of the study

In order to reduce the above mentioned limitations the researcher provided a detailed and tailored questionnaire to avoid influence of individual bias.
CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter entailed the theoretical and empirical review of past studies and the conceptual framework. Theoretical framework introduced some of the theories under which this research operated; empirical review presented the findings and views of various researches on trade finance. Finally the conceptual framework showed how the various variables interacted; the dependent variable in this case was the financial performance while the independent variables were collection, guarantees and letters of credit.

2.1 Theoretical review

According to Econstor (2009), in his paper he developed a theory of trade finance that explained the co-existence of the different financing forms depending on the different costs involved in trade finance. He mentioned three types of payments available to finance trade transactions which included cash in advance, open account and bank intermediated transactions. He further stated that given the rising uncertainty firms relied more on letters of credit as the safest payment of a contract available. He advocated the use of bank intermediated transactions due repeated transactions and supply chain relationships.

According to Clark E. (2002), there were three main methods of making international payments which included documentary methods, cash in advance and open account. Documentary credit involved the use of documentary draft and letters of credit. For cash in advance, payments for goods are made before they are shipped. While open account involved shipping the goods to the importer, invoicing him and trusting him to pay within the prescribed limits; this mode of payment was used for the most trustworthy clients.

Schmidt Elsenlor (2012), studied the optimal choice between the payment contracts and their implications for the trade equilibrium. He argued that this were determined by the financial market characteristics and contracting environments in both the source and the destination country. Just as Econstor and Clark, Schmidt admitted that there were three main types of payment which included cash in advance, open account and bank intermediated transaction.
The researcher studied the use of bank intermediated transactions and their effects on the financial performance of banks.

2.2 Empirical review

According to Marc Aubon (2007), as an institution World Trade Organisation (WTO) was geared towards the balanced expansion of world trade and was in the business of making trade possible through reducing trade barriers, negotiating and implementing global trade rules and settling disputes on the basis of the rule of law. It was also interested in the strengthening of the supply side of the developing countries so that they could respond to new market opportunities. He argued that 90% of trade transactions involved some form of credit, insurance or guarantee one could reasonably say that trade finance was the lifeline of trade. Producers and traders in developing or least developed countries needed to have access to affordable flows of trade financing and insurance to be able to import and export and hence integrate in world trade. From the above perspective an efficient financial system was very important in order to allow trade to prosper. Since WTO was not a financial institution, it had been supporting the agencies, large banks and regional development banks. WTO had been asked by its members in the recent years to examine the issue of availability of trade financing as a key infrastructure needed in developing the least developed countries to integrate in world trade. Paragraph 36 of the ministerial declaration of Doha requested members to examine and if necessary come up with recommendation on measures that WTO had to take to minimize the consequences of financial instabilities on their trade opportunities.

In the United States both trade and industry tended to converge around the same services. Large financial institutions hired supply chain managers from industry to support tailored services for open account transactions in specific sectors whereas trade management software services groups and sourcing. Supplier networks are teaming up to effect trade finance (arranging credit, discounting payments to suppliers, financing receivables, with or without the assistance of banks). This was only possible in a fully deregulated financial system in which non financial companies can be licensed to offer financial services. They are made available to the rest of the world through the SWIFT international banking communication systems which offered standard messaging service linking up financial intermediaries involved in the trade transactions, Mark Aubon (2007). Though in the past trade finance had been structured around the needs of the
importers, it was increasingly tailored for exporters who benefit from the automation of more targeted credits, linking up high technology companies, financial intermediaries and exporters.

Remedying the knowledge and technology gaps concerning the use of traditional instruments of trade finance was one objective of trade finance facilitation programs (TFFPS) which provided short term guarantees to international and regional banks (confirming banks) covering both the commercial and political risks of international trade credit transactions emancipated from the local banks (issuing banks) as well as provided directly to specified companies and banks revolving credit facilities all of which are offered at a little cost. In so doing, these programs to addressed the lack of availability of trade finance for countries with little or no access to international markets. According to summers, L.H (2000), episodes of credit crush in Asia and later in Latin America raised suspicion of a confusion by private markets in the absence of reliable information about risk between country risk and individual company or bank risk. 

Stephens Malcom (1998) pointed out that standard economic theory in such extreme circumstances would indicate that solvable demands from credits emanating from companies with good credit rating had to be met by supply at highest prices. In the light of general loss in the confidence in the local banking systems, international banks forced up confirmation fees or inter-bank spreads and reduced or cancelled bank limits as well as country limits.

According to Wang and Tedesse (2005), during the financial crises in the late 1990’s and the early years of the new century trade financing to the crisis countries fell dramatically. Available data suggested that the emerging markets rely heavily on bank financed trade credits to support exports at pre shipment and post shipment stages, as well as imports. Such financing, provided by international and commercial banks tended to be channeled to local borrowers through leading domestic banks and was an important source of working capital for many emerging market companies. Bank trade financed trade credits declined by as much as 30% to 50% in Brazil and Argentina in 2002, by about 50% in Korea in 1997-1998 and from $6 billion in Indonesia during the Asian crisis.

According to World Bank (2003), agency trade finance schemes which were initially inspired by the European bank for reconstruction and development (EBRD). Trade finance facilitation programme had developed and became more standardized after the Asian crises’. While trade market recovered with the exceptional expansion of trade and the world economy from 2002
onwards; trade finance facilitation programmes had found their market in the niche left by export credit agencies and private banks for the small countries.

Private financial institutions in developing countries when delivering a letter of credit indicating that they would pay on behalf of their client often faced a credibility gap because of lack of reputation on international markets despite of the good level of safety and soundness. Trade finance facilitation programmes provided comfort to the larger private banks that they could finance trade with smaller ones in developing countries at little risk. In developing countries, too often the perceived level of risk was higher than the actual level of risk and therefore regional development banks should help mitigate this risk (WTO November 2007). It also points out that the global review on aid for trade on November 19-20 2007, several announcements were made in cooperation, extra funding and staffing. According to a World Bank report in 2007, that trade finance services would be expanded significantly. Already in 2007, the IFC was expected to provide $1.3 billion to finance trade finance. The plan was that by the end of the commitment period for aid for trade (2010) to almost double the existing volume of trade finance to $2 billion a year and to double the number of partner to 260. The rapid expansion of world trade in the past few years could not have taken place without a recovery in the traditional sources of financing both long and short term. While short term finance like any other form of credit involved commercial risk, trade finance was providing fluidity and security to the movement of goods and services worldwide. Financial instruments and actors were relatively well identified instruments of financing that involved banks were commonly known as letters of credit which were exchanged/endorsed/confirmed by such banks on behalf of their customers and reflect a commitment to pay an export or import based on the presentation of stipulated documents such as shipping and insurance documents or commercial invoices otherwise known as documentary credits (World bank, 2003). Banks extended short term or long term loans, discount letters of credit, provide advance payment bonds for the shipment of goods and that the company could bridge the period between shipping the goods and receiving the goods from the importer (pre-shipment and post-shipment financing).

2.3 The banking industry in Kenya

The Companies Act, the Banking Act and Central Bank and other prudential guidelines which were normally issued by the central bank govern the banking industry in Kenya. The banking
industry in Kenya was regulated by the central bank of Kenya which developed legal and regulatory frameworks to foster stability, efficiency and access to financial services. As at 31st December 2011, the banking sector comprised of central bank as the regulatory authority, forty four banking institutions (43 commercial banks, 1 mortgage finance company (MFC), 4 representative offices of foreign banks, 6 deposit taking micro-finance institutions (DTMS), 118 Forex bureaus and two credit reference bureaus (CRB’s)). Out of the forty four banking institutions, thirty one are locally owned, three public shareholding and twenty eight privately owned while 13 are foreign owned. The six DTMs, two CRBs, and one hundred and eighteen Forex bureaus are privately owned. Foreign owned financial institutions composed locally incorporated foreign banks and four branches of foreign incorporated banks (Central Bank supervision annual report 2011). It also reported an average increase in commercial bank lending rates and deposit rates between December 2010 and December 2011. Commercial banks average lending rates increased from 13.87 in December 2010 to 20.04 percent in December 2011 with interest paid by banks increasing from 3.59% in December 2010 to 6.99% in December 2011. (www.cbk.co.ke)

Central bank applied the CAMEL rating system to assess the soundness of financial institution which was an acronym for capital adequacy, asset quality, management quality, earnings and liquidity. Gregorian Manole (2002) ,while analyzing the performance of banks in transition observed that the banking sector in transitional economies had experienced transformations through the 1990s. While examining the same phenomenon Fries (2002), found out that performance of banks differ depending on the reform environment and competing conditions under which they operate. He proposed that the following indicators could be used to measure banks performance;- Capital adequacy-Measured in terms of capital to total risk weight asset ratio, which showed amount of capital institutions hold relative to the risk profile of its assets. Asset quality-Rated on the basis of the proportion of non-performing loans, net of provisions to gross loans. Earnings and liquidity-Earnings measured on the basis of return on assets while liquidity of the banking is measured by the ration of the net liquid assets to total deposits. Other measures include;- Market share and lending behavior, credit distribution and distribution of bank profitability and composition and changes in assets, liabilities, deposits capital.
Export oriented small and medium enterprises SMEs were anticipated to play an increasing important role in Kenya’s future growth. The government private sector development strategy PSDS implementation plan had identified access to appropriate trade finance as a potential constraint to realizing this growth. A study by FSD(2009) to assess the position and make recommendations for actions to strengthen the supply of trade finance to SMEs noted many positive features of the market in Kenya with a strong level of interest evinced by banks in both the SME segment and trade finance. Some conservation was also observed with some bank reluctant to recognize the intrinsic self liquidating characteristics of trade finance often seeking additional collateral which could restrict access. Licensing of credit bureaus by the Central bank which was gazetted in May 2007 represented a critical development in enabling environment for financial services in banks as they were able to share information on loan defaulters and ease screening costs and burden of write offs on the sector. It led to improvement on the assets owned by banks as they were able to scrutinize the customers well before loan approval. According to FSD (2009), commercial banks in Kenya had significantly improved their financial standing and their non performing loan ratio was reduced by 20% at the end of 2006 and 10% at the end of 2007. They also expressed commitment to servicing trade finance. Banks with international capacity showed improvement particularly in obtaining confirmation of their letters of credit which remained satisfactory for the main financial institution.

2.4 Methods used by banks in offering trade finance

Banks provided or offered trade finance through the following three ways; -Letters of credit or documentary credit, letters of guarantees, and facilitating documentary collections which included provision of credit facilities which include pre-shipment finance or packing credits and post shipment finance and facilitating local and international remittances through issuance of drafts and SWIFT remittances.(FSD,2009).

The roles played by commercial banks in trade finance included; provision of information to buyers and sellers (the role of advisory), settlement for trade transactions, provision of financing, management of currency risks and taking of market risks. In settlement for trade transactions, banks offered products like open account, advance payments, documentary collection and letters of credit. While in provision of financing, they provided working capital loans or overdrafts, terms loans, issuing of bank guarantees, issuance of letters of credit (LCs), accepting and
confirming letters of credits, discounting export documents and structured finance. In managing currency risks, banks were capable of minimizing exchange rate fluctuations risk between major traded currencies through a hedging operation by taking or reverse position in the forward market using options foreign exchange in the future market, thereafter be able to provide importers and exporters with competitive rates for spots markets, forward markets, options and swaps.

2.5 Importance of trade finance to banks

Win S.U (2005), discusses importance of trade finance to banks as follows; it helped the bank in achieving product diversification through provision of different and many products and therefore gave it a competitive advantage against its competitors. Since trade finance products did not take lengthy processes as the main loan products it provided an avenue for short term financing opportunities and also boosting the achievement of the bank’s lending targets. The provision of trade finance products also enabled the bank to obtain off balance sheet revenues from the transactional charges levied on trade finance products; this helped in the composition and distribution of the bank’s assets. According to Marc Auboin (November 2007), the confirmation of documents by banks was a sure way of helping the banks to minimize risks and that made it a cheaper method of lending since it did not expose the bank to unnecessary risks.

2.6 Main types of trade financing instruments

The main types of trade financing instruments were discussed as below.

Bill of Exchange (B/E) is an instrument normally used in the international commerce to effect payment. It is simply an order written by an exporter instructing an importer or its agent to pay a specified amount of money at a specified time. It therefore becomes an exporter’s demand for payment from an importer.

Negotiable instruments this is a draft that conforms to the following;-It must be in writing and signed by the maker or drawer, must contain an unconditional promise to pay definite some of money, must be payable on demand or at a fixed or determined future date and lastly, must be payable to order or to bearer.
Bank acceptances this is when a draft is accepted by a bank. It is the unconditional promise of a bank to make payment on the draft when it matures. On the other hand, a Bill of landing (B/L) is issued to the exporter by a common carrier transporting the merchandise; it serves a receipt, as a contract and as a document of title.

Letters of Credit (LCs) these are the most secure instruments available to international traders. An LC is a commitment by a bank on behalf of the buyer that payment will be made to the exporter, provided that the terms and conditions stated in the LC had been met, as verified through the presentation of all required documents. An LC was useful when reliable credit information about a foreign buyer was difficult to obtain, but the exporter was satisfied with the credit worthiness of the buyer's foreign bank. An LC also protects the buyer because no payment obligation arose until the goods have been shipped or delivered as promised. It is a bank's promise to pay issued by a bank at the request of an importer (the applicant), in which the bank promises to pay the beneficiary of the letter (exporter) upon presentation of documents specified in the L/C.

Documentary Collection is a transaction whereby the exporter entrusts the collection of a payment to the remitting bank (exporter's bank), which sends documents to a collecting bank (importer's bank), along with instructions for payment. Funds are received from the importer and remitted to the exporter through the banks involved in the collection in exchange for those documents. D/Cs involve using a draft that requires the importer to pay the face amount either at sight (document against payment) or on a specified date (document against acceptance). The draft gives instructions that specify the documents required for the transfer of title to the goods. Although banks acted as facilitators for their clients, D/Cs did not verification process and limited recourse in the event of non-payment. Drafts were generally less expensive than LCs. In banks it was used as simple word-collections and therefore for the sake of this research it had been used as such.

Open Account; this is a sale where the goods are shipped and delivered before payment is due, which is usually in 30 to 90 days. Obviously, this option was the most advantageous option to the importer in terms of cash flow and cost, but it was consequently the highest risk option for an exporter. Because of intense competition in export markets, foreign buyers often press exporters for open account terms since the extension of credit by the seller to the buyer was more common
abroad. Therefore, exporters who were reluctant to extend credit would lose a sale to their competitors. However, the exporter would offer competitive open account terms while substantially mitigating the risk of non-payment by using one or more of the appropriate trade finance techniques, such as export credit insurance.

Guarantee is an undertaking by a bank to pay the beneficiary a stated amount of money should a third party fail to perform as per the term of the contract. Some of the guarantee facilities offered by the bank included; bid bond or tender bonds, performance guarantee, advance payment guarantee and facility guarantee. It was worth noting that banks dealt with documents in trade finance and that was the reason as to why most of the services are described through the use of names of documents to provide financing to the importers or the exporters (Moffett et al, 2009).
2.7 Conceptual framework

This framework attempted to examine and explain the effects of trade finance on financial performance of banks. The financial performance of banks was measured through capital adequacy, asset quality, earnings, liquidity and management quality which were depended on trade finance as a product provided by banks. For example for the bank to grow its assets it depended on loans some of which are offered through trade finance which were indirectly offered through letters of credit, documentary credit, bank guarantee, performance bonds and bid bonds, local purchase order financing of banks draft and export and import financing. This also led to the increased market share due to increased customers who came in for the services and ended up bringing with them accounts deposits and prospective business practitioners and hence increased profitability due to charges and fees paid for the provision of the services. During study the researcher studied the effects of trade finance on the bank’s financial performance through considering the main products of trade finance which appeared in the financial statements when banks did their financial reports known as off balance sheet financing. These included; letters of credit, collections and guarantees.

Figure 2.1 Conceptual Framework on effects of trade finance on banks financial performance

![Conceptual Framework](image)

Letters of credit → Guarantees → Financial performance

Collections

Independent variables Dependent variable

Source: Researcher (2013)
CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter described the research design, target population, sampling procedure, data collection procedure and data analysis procedures used during the study.

3.1 Research design

The researcher employed a descriptive research design. According to Cooper and Schindler (2000) descriptive research is concerned with finding out who, what, where, when or how much. The study was aimed at finding out the effects of trade finance on the bank’s financial performance.

3.2 Target population

A population is the total collection of elements about which an inference is to be made (Cooper and Schindler 2000). Family bank had sixty six branches and therefore the researcher targeted a supervisor from each branch of the bank.

3.3 Sampling design

Sampling is selecting some elements from a population so that one may draw conclusions about the entire population. The study adopted stratified sampling technique where branches were classified according to region. This gave a better view of the effects of trade finance in different branches due to the diversity of economic activities in the different regions in our country. The researcher targeted a sample of thirty three credit supervisors to make half of the population. These were sampled randomly from each of the three regions according to family bank’s classification that was coast, central and western regions. The distribution of Family bank branches was 4 branches in coast region, 18 branches in western and 44 in central region. The branches were sampled as follows: 2 from coast, 9 from western and 22 from central region. According to Mugenda and Mugenda (2009) for a descriptive study, sample of ten percent of the population was a good representative of the whole and therefore thirty three branches out of sixty six branches was large enough to be a true representative of the entire population.
3.4 Data collection procedure

The researcher used questionnaires to collect primary data from branches which were delivered by mail. Questionnaire is a research instrument that gathers data over a large sample and have various advantages such as information can be collected from a large sample and diverse regions, confidentiality is enhanced and saves on time, (Kombo and Tromp, 2000). The use of a questionnaire was therefore preferred because it would enable large coverage of population within a very short time. Secondary data from the published results was be used to verify the information obtained.

3.5 Validity and reliability of the data collection instruments.

Validity in research involved finding evidence to establish the extent to which performance on the test corresponds to the actual behavior or knowledge that the test user wants to measure. According to Mugenda and Mugenda (2003), reliability and validity are measures of relevance and correctness. The researcher carried out a pilot study on six possible respondents to find out whether the questionnaire answered the research questions intended for the research and that they would gave consistent feedback.

3.6 Data analysis and presentation.

Data analysis included identification, sorting, cleaning and organization of data from the filled questionnaires. The information was coded and entered into a spread sheet and analysed using descriptive statistics model on SPSS. The codes were segregated according to research questions and objectives. Data was later grouped in themes from which conclusions were drawn. Analysed data was then presented using graphs, pie charts and frequency distribution tables.
CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Introduction

Data collected from family bank limited was checked for completeness in case of errors and inconsistency. Thereafter the data was grouped according to the categories outlined in the questionnaire, coded and grouped into themes as per the questionnaire. The data was then analyzed by use of frequency tool in the Statistical Package for Social Scientists (SPSS) and the results presented in graphical and tabular form.

4.1 Response rate

Responses on the questionnaires were as follows;

Fig.4.1 Responses in gender

![Graph showing responses in gender](image)

Source: Research data

Sekaran (2006) argues that 30% of response rates are needed to make the findings eligible for generalization. Out of thirty three questionnaires issued, twenty two responded representing 66.7%. This was therefore high enough to make conclusions on the population. Further there was an indication that there were more females than men.
4.2 Age of respondents

The responses obtained on the respondent’s age are shown on fig. 4.2 below. It was noted that most of the supervisors were very young between 20-30 years representing 54% of the respondents while 31-40 years represented 46% and none between 40-50 years. This implied that the institution was being served by young energetic group of staff who had the zeal to do their best in developing their careers and this also meant they were giving their best to the organization.

![Age of respondents chart]

Source: Research data

4.3 Level of education of respondents

Responses obtained from respondents on their level of education are shown on pie chart below, they revealed that highest level of education for the respondents was masters’ which was represented by 36.4%, followed by first degree represented by 54.5% and the lowest level of education was diploma represented by 9.1%. Since majority were first degree holders, it represented very potential group of human resources. Considering their young age and level of education the bank can utilize their potential by training and mentoring them to form a resourceful team for the bank.
4.4 Length of service of respondents

The respondents having been required to indicate their length of service at family bank their responses are as follows; four categories had been given from which the respondents would choose their age group. Their choices are discussed as follows, seven supervisors had served for less than three years translating to 31.82%, fourteen between three to five years representing 63.64, one between five and ten years translating to 4.55% and none had served for above ten years. Majority of the supervisors had served the organization for at least three years this meant that they knew the companies policies and procedures pertaining trade finance and thus the information they gave was reliable.
4.5 Products frequently offered for trade finance.

<table>
<thead>
<tr>
<th>Product</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bid bond</td>
<td>20</td>
<td>90.91%</td>
</tr>
<tr>
<td>Performance bond</td>
<td>21</td>
<td>95.45%</td>
</tr>
<tr>
<td>Letters of credit</td>
<td>21</td>
<td>95.45%</td>
</tr>
<tr>
<td>Documentary collection</td>
<td>16</td>
<td>72.73%</td>
</tr>
<tr>
<td>Invoice /bill discounting</td>
<td>19</td>
<td>86.36%</td>
</tr>
<tr>
<td>LPO financing</td>
<td>22</td>
<td>100%</td>
</tr>
<tr>
<td>Inventory /stock financing</td>
<td>11</td>
<td>50%</td>
</tr>
</tbody>
</table>

Table 4.1 Products frequently offered for trade finance source: Research data

On products frequently offered for trade finance, 90.91% offered bid bonds, 95.45% performance bonds, 95.45% letters of credit, 72.73% documentary collection, 86.36% invoice /bill discounting, 100% LPO financing and 50% offered inventory /stock financing. The above data therefore shows that LPO financing was offered by all the respondents, while inventory /stock taking were the least offered. It was also noted that though inventory /stock taking was
least offered it was the simplest to implement and the researcher recommends that trainings and marketing should be intensified to leverage on the products offered so as to have uniformity in all the branches.

4.6 Effects of letters of credit on the financial performance of the bank

Respondents were required to rank the effects of letters of credit on the measures of the bank’s financial performance. The responses are represented in the graph below.

Fig. 4.5 Effects of letters of credit

![Graph showing effects of letters of credit on financial performance](image)

Source: Research data

Most of the respondents ranked effects of letters of credit to be very important on the measures of financial performance included 59.09% on capital adequacy, 81.82% on asset value and 68.2% on liquidity while 59.1% ranked effects on earnings to be very important. It was worth noting that the supervisors are the managers the bank’s assets in loan books and therefore their ranking of effects of letters of credit as very important on the measures of the bank’s financial performance was informed and very reliable.

4.7 Branch revenue from offering letters of credit

Revenues made from offering letters of credit per quarter were obtained as follows: 9.09% of the branches made less than one million, 59.09% between one million to five million and 31.82%
between five million to ten million shillings. It is therefore a clear indication that banks made revenues out of their ability to offer trade finance. These are represented in the figure below.

Fig 4.6 Branch revenues from letters of credit

![Bar graph showing branch revenues from letters of credit](image)

Source: Research data

4.8 Effects of guarantees on the financial performance of family bank

Fig 4.17 below shows the results obtained when respondents were asked to rank the effects of guarantees on the banks financial performance. Guarantees were ranked to be very important to all measures of financial performance of banks with 59.09% ranking for capital adequacy, 81.2% for asset value, 68.18% for liquidity and 59.09% for earnings. From the findings the rank for asset value was given the highest number of those who ranked it as very important. This was because trade finance especially through guarantees gives the bank an avenue for short term lending and therefore leading to the improvement of the bank’s assets. It is closely followed in rank for importance by liquidity. While reporting banks performance, off balance sheet items are grouped as contingent liabilities therefore highly affecting the banks financial performance through the liquidity ratio.
4.9 Branch revenues from offering guarantees

The respondents were required to give the branches revenues from offering guarantees. Out of the twenty two respondents 9.09% obtained less than one million, 59.09% between one million to five million and 31.82% between five million to ten million. Guarantees offer an avenue for the bank to make clean revenues on fees charged up front and very few risks since most of the clients offered guarantees are well known business customers. It is therefore for this reason that the bank should establish business link and memorandum of understanding with many corporate organizations to utilize the chance and offer more of guarantees. The bank should aim at having revenues on the third group which had a rank of 31.82%. Its improvement on the same line would mean an improvement in its financial performance. The same information is represented in the graph below.
Fig 4.8 Revenues from guarantees

Source: Research data

4.10. Effects of collections on the banks financial performance

To a great extent collections affected capital adequacy, liquidity and earnings while to some extent, asset value posted the highest percentage of 59.1%. Collections is an avenue that is almost risk free. The revenues from this product mainly rely on volumes. From the responses it was evident that collections did not affect the asset value while earnings, capital adequacy and liquidity were highly affected. Collections do not affect the assets of the bank because collection are a liability since they are either customer deposits or money held on transit to the respective payee. They only affect earnings .capital adequacy and liquidity due to the revenues collected, availability of funds to repay the respective customers on collections and finally those not yet claimed are grouped as contingent liabilities.
4.9 Effects of collections

Source: Research data

4.11 Branch revenues from collections per quarter

Fig 4.10 Revenues from collections

Source: research data

From the figure above revenues from collections per quarter were reported as 53% between one million to five million, 33% less than a million and 14% between five million to ten million. From the figures above it was very clear that collections posted the least revenues with high ranks for revenues between one million and five million and less than one million. This indicated
that much had to be done especially in marketing and sensitization for customers to frequently use the product and therefore tap the market for the bank to make more profits.

4.12 Factors that affect the ability to offer letters of credit, guarantees and collections

The respondents were required to list the factors that affected their ability to offer the above trade finance products. The following were their responses: customer account operation, security offered, lack of enough skills, unavailability of enough customers, lack of well established structures, low business volumes. Among all the above factors security offered especially for the guarantees and letters of credit was the main hindrance due to the fact that even customers who had good account history and did not have the required security were not offered the product.
CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction.

This chapter gives a summary of the study findings, recommendations, conclusions and areas of further research. Data was analysed with the help of SPSS using descriptive statistics; frequency tables and charts and graphs were used to represent the data and hence draw conclusions on the findings.

5.1 Summary of findings

The main objective of the study was to find out the effects of trade finance on the banks financial performance. This was measured through use of a questionnaire were the respondents were required to give ranks on given measures of a bank’s financial performance. On the effects of letters of credit on the banks financial performance it was evident that they affected the banks performance since most of the respondents ranked effects of letters of on capital adequacy as very important. It was also noted that the effects of letters of credit on the following measure were very important as reflected by the ranks for asset value, liquidity and earnings being highest. This was also reflected on the revenues that the bank was making from offering letters of credit.

It was clear that the effects of guarantees on the banks performance were very important considering that they were ranked as such for the different measures of financial Performance. Majority of respondents ranked effects of capital adequacy, asset value, liquidity and earnings respectively to be very important as show by the analysis.

It was not different for the effects of collections on the measures capital adequacy, liquidity and earnings by posting highest numbers was believed to be affected to a great extent while asset value was affected to some extent. The revenues generated from collections were the evidence that their provision affected the bank’s performance through increased revenues.
The study further found out that factors affecting the provision of the different trade finance products were found to be same for all. As pointed out by the research lack of additional collateral/security was a main hindrance to access of most trade finance products. This meant that an improvement on this area would lead to improvement revenues for better financial performance.

5.2 Recommendations

From the study the researcher recommended that since most of the factors affecting the ability to offer trade finance were within the bank’s ability to improve, it would therefore improve through the avenues discussed below.

Use of alternative securities and collaterals in order to access the products; it emerged from the study that the security required to access the facilities should either have been a log book or a title deed. Considering that not all the customers had tangible security of title deed and log books then the use of chattels as alternative securities are recommended. This would even lead to increased volumes on the revenues from trade finance due to increased customer volumes. Formulation of memorandum of understanding with most of the reputable organizations that issued or required guarantees and letters of credit would be very helpful as the clients would only be required to produce the agreed evidence and in return they will access the products easily. Time taken in appraisals would also reduce significantly. Payments would come through their accounts and hence reduction of risk exposure, providing an assurance that the transaction would be completed within the agreed duration and according to stipulated terms and conditions appropriate for the client and the bank.

Customer account operation was a main factor affecting the ability to offer trade finance products it was noted during the study that one had to operate the account for at least three months. Considering that most of trade finance products took a very short period to mature and the fact that most of the customers were multi banked, the researcher strongly recommended the use of statements from other banks to determine the customers ability to repay so as to increase volumes and make it possible for more customers to access products such as guarantees and letters of credit.
Specialised training for the credit supervisors was highly recommended. From the study it emerged that lack of enough skills to handle trade finance clients was a main challenge. Trained staff would be able to give the appropriate feedback to customers in order to make informed decisions. It would also enable them to observe turnaround time which is so crucial considering that the customer was in a position to access the product from another bank. The fact that the staff were young and had had their first degree show that these were people who could be trained and able to grasp new skills and therefore the it would be very easy for the organization to develop its human resources.

Policies and procedures needed to be streamlined in order to allow more customers to access the products. An example was a policy especially for the period one had banked with the institution should be made flexible to avoid frustration of new customers.

Marketing was also very necessary as it had been noted that volumes of customers did not use trade finance products just because they were not aware that such products were offered. It was strongly recommended that branches should leverage on the provision of trade finance products as only LPO financing were reported to be offered by all the branches and other products like inventory/stock financing reported to be least offered as well as documentary collections. This would translate to increased customer volumes thus an increase in the revenues collected.

5.3 Conclusions

Provision of trade finance by the banks affects their financial performance. It was evident from the research responses that the different trade finance products offered affected financial performance of the bank. Having noted from the findings above that the incomes from offering letters of credit, guarantees and collections affected the financial performance of the bank and that the different ranks used for the rating of their effects on measures of financial performance. It follows then that so as to improve on financial performance of the banks the factors that affected the provision of trade finance products had to be streamlined to make it easy for the bank to offer more of the products and hence increase on their revenue.
5.4 Suggestions for further research

It was recommended that further research could be carried out on other banks to find out the effect of trade finance on the overall performance of banks.
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http://www.centralbank.go.ke

http://www.tradeindustry.go.ke
APPENDICES

Appendix 1: Questionnaire

This questionnaire is meant to collect information to help in determining the Effects of trade finance on the financial performance of banks, a case study of family bank limited.

Information collected through this questionnaire will be treated with almost confidentiality and only for the purpose of this academic research as proposed by the researcher.

Section A

1. What is your gender?
   - Male □
   - female □

2. How old are you? (Tick appropriately).
   - a) Below 20 years
   - b) Between 20 and 30 years
   - c) Between 31 and 40 years
   - d) Between 41 and 50 years
   - e) Above 51 years

3. What is your highest level of education?
   - Masters □
   - degree □
   - diploma □
   - high school □

4. For how long have you been working for your employer?
<p>|</p>
<table>
<thead>
<tr>
<th>Length</th>
<th>Below 3 years</th>
<th>3-5years</th>
<th>5-10 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. What is your current designation? ..............................................................
6. From the list below kindly tick the products that your branch frequently offers for trade finance

   i) Bid bond
   ii) Performance bond
   iii) Letters of credit
   iv) Documentary collection
   v) Invoice /bill discounting
   vi) LPO financing
   vii) Inventory/stock financing

Section B. Effects of letters of credit on trade finance.

7. How would you rank the effects of letters of credit the following measures of the bank's financial performance? (Tick appropriately on the table below).

   A. Very important
   B. Important
   C. Not important.

<table>
<thead>
<tr>
<th>Measure</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital adequacy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. On average what are your branch’s revenues from offering letters of credit per quarter. (Tick appropriately).

   i. Less than 1 million.
ii. Between 1 million to 5 million
iii. Between 5 million to 10 million
iv. Over 10 million.

9. What are the factors that affect your ability to offer letters of credit in your branch?

a) ........................................................................................................................................

b) ........................................................................................................................................

c) ........................................................................................................................................

d) ........................................................................................................................................

e) ........................................................................................................................................

Section C: Effects of guarantee on the financial performance of Family Bank.

10. How would you rank the effects of guarantees the following measures of the bank's financial performance? (Tick appropriately on the table below).

A. Very important
B. Important
C. Not important

<table>
<thead>
<tr>
<th>Measure</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital adequacy</td>
<td></td>
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<tr>
<td>Asset value</td>
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<td></td>
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</tr>
<tr>
<td>Liquidity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. On average what are your branch's revenues from offering guarantees per quarter. (Tick appropriately).

i. Less than 1 million.
ii. Between 1 million to 5 million
iii. Between 5 million to 10 million
iv. Over 10 million.
12. What are the factors that affect your ability to offer guarantees in your branch?

a) .................................................................
b) .................................................................
c) .................................................................
d) .................................................................
e) .................................................................

Section D: Effects of collections on the bank’s financial performance.

13. To what extent do collections affect the following measures of the bank’s financial performance? (Tick appropriately on the table below).

<table>
<thead>
<tr>
<th>measure</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Adequacy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

14. On average what are your branch’s revenues from offering collections per quarter. (Tick appropriately).

i. Less than 1 million.

ii. Between 1 million to 5 million
iii. Between 5 million to 10 million

iv. Over 10 million.

15. What are the factors that affect your ability to offer collections in your branch?

a) .................................................................

b) .................................................................

c) .................................................................

d) .................................................................

e) .................................................................

16. What other comments do you have regarding this study that may not have been covered?

a) .................................................................

b) .................................................................

c) .................................................................

d) .................................................................

e) .................................................................

Thank you for your contribution and God bless you.
Appendix 2: List of Family bank branches.

This list contains the family bank branches in order of the region under which they fall.

**Central region**

1. Kikuyu Branch  
2. Kiambu Branch  
3. Githuguri Branch  
4. Sonalux Branch  
5. Gatundu Branch  
6. Thika Branch  
7. Murang’a Branch  
8. Kangari Branch  
9. Kiriaini Branch  
10. Kangema Branch  
11. Othaya Branch  
12. Kenyatta Avenue Branch  
13. Cargen Branch  
14. Dagoretti Branch  
15. Nyahururu Branch  
16. Ruiru Branch  
17. Industrial Area Branch  
18. Donholm Branch  
19. Family bank towers retail Branch  
20. KTDA retail Branch  
21. Kariobangi Branch  
22. Gikomba area 42 Branch  
23. Gikomba Branch  
24. Githurai Branch  
25. Kilimani Branch  
26. Limuru Branch  
27. Westlands Branch  
28. Kangwe Branch  
29. Banana Branch  
30. Nyeri Branch  
31. Karatina Branch  
32. Kerugoya Branch  
33. Tom Mboya Branch  
34. River road Branch  
35. Kayole Branch  
36. Nkubu Branch
37. Meru Branch
39. Family bank towers corporate
41. Kitengela Branch
43. Machakos Branch

**Coast region**
45. Mombasa Digo Branch
47. Mombasa Nkrumah branch

**Western region**
49. Narok Branch
51. Nakuru Njoro Branch
53. Kisumu reliance Branch
55. Kisii Branch
57. Molo Branch.
59. Bungoma Branch
61. Busia Branch.

Source: Family bank’s financial report June 2012.