THE FINANCIAL PERFORMANCE OF DFCU BANK: A CASE OF DFCU BANK HEAD OFFICE IN NAKASERO, KYADONDO ROAD, KAMPALA

ABSTRACT

The purpose of this study was to find out the financial performance of DFCU bank Uganda. The financial sector is very crucial to the economies of countries. Banks are a core of the financial sector especially when it comes to developing economies where the capital market is not strong enough. In an economy where the capital market is still a developing one, banks serve as important sources of funds for businesses. For this reason, the survival and consistently good performance of banks is an issue of concern to all. This study sought to investigate the performance of DFCU bank, a step in the right direction to identifying the means of promoting the survival and growth of the sector that serves as the backbone of the financial system of developing economies like Uganda.

A descriptive case study research design was adopted where a total sample of 61 respondents were consulted. The primary data was collected using a self-completion structured questionnaire.

Key findings indicate that the DFCU banks' performance is average. The factors determining the profitability of DFCU bank include; asset structure, asset quality, revenue diversification. The second group of determinants includes factors relating profitability to the industry structure and to the macroeconomic environment within which the DFCU bank operates, such as economic growth, inflation, and interest rates. Majority of respondents were in support of their bank that it was financially good (liquid). Above all, the study showed that to a greater extent, there is a positive relationship between computerization and financial performance with regard to improved efficiency, increased business capacity and reduction of fraud.

It is recommended that DFCU bank improves its liquidity levels through increasing its current assets that can easily be converted into cash. This level of assets should be above the liabilities in order to meet the creditors ‘demands when there is need.

List of Abbreviation and Acronyms

BIS Bank of International Settlement

BOU Bank of Uganda

CAMEL Capital adequacy, Asset quality, Management, Earning and Liquidity

GDP Gross Domestic Product

IASB International Accounting Standards Board

NAM Net Asset Margin

NIM Net Interest Margin

ROA Return on Assets

ROE Return on Equity

SACCO Savings and Credit Cooperation Association

SPSS Statistical Package for Social Sciences

SSA Sub Saharan Africa

TT&L Treasury Tax and Loan

Definition of Key Concepts and Terms

Performance: This is defined as a barometer or an index that measures the returns or profits in relation to costs. According to the International Accounting Standards Board (IASB, 2009) Framework, performance is the ability of an entity to earn profit on the resources that have been invested in it. Performance is measured in terms of profitability as a sign of efficiency.

Profitability: It is the ability of the bank to earn a profit on the level of income made. Traditionally the financial performance of banks and other financial institutions has been measured using a combination of convectional accounting measures of risk and return (Duncan et al 2004).

Liquidity: According to Niehans and Hewson (1976) it refers to the “money-ness” of the assets and liabilities. When the ratio of liquid liabilities to liquid assets is low, it means there are adequate liquid assets that can be disposed of to settle liabilities on demand (Kashyap et al., 1999).

Accounting systems: According to Meigs (1996) an accounting system consists of methods, people, procedures and devices use by an entity to keep track of its financial transactions and to provide information for decision making. It helps to integrate information in order to cope up with reports in terms of balance sheets, income statements, and cash flow statements so that management and other stakeholders who are interested in them can make use of them.

Computerized accounting system: Frank wood (1996) stated that a computerized accounting system is a combination of people; procedures, facilities and controls intended to maintain essential channels of communication and to alert management and other stakeholders about significant internal and external events.