



THE STUDY OF CREDIT RISK MANAGEMENT AND ITS IMPACT ON OPERATIONAL PERFORMANCE: CASE STUDY OF THE STANDARD CHARTERED BANK IN SIERRA LEONE

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Abstract:

Managing credit risk is a crucial concern for banks in light of various factors such as global economic crises, digital transformation, technological advancements, and the use of artificial intelligence in banking. Regulators and the Basel regulations require banks to have a transparent and comprehensive understanding of their customers and credit risk. Banks must keep track of, assess, limit, and evaluate credit risk in their entire portfolio and single transactions, as well as consider its connection with other types of risks. The Basel II Accord provides standards for banks to implement new methods for measuring and handling credit risk. Effective credit risk management can impact banks' performance, earnings, and image. Liquidity risk management is another key aspect that requires banks to have a robust process for identifying, measuring, monitoring, and controlling liquidity risk. Banks must have contingency funding plans (CFPs) that clearly outline the strategies for dealing with liquidity shortages in crises. They should also hold a buffer of unencumbered, high-quality liquid assets to protect against various liquidity stress scenarios. Bank performance is a multidimensional concept that encompasses financial and market performance, human resource performance, organizational efficiency, and customer-centered performance. It is often assessed holistically by considering these and other relevant dimensions. The specific components that contribute to bank performance may vary depending on the methodology used by researchers or analysts. The research findings suggest that effective management of credit risk has improved the operational performance and liquidity of the bank. Operational performance has a wide range of factors, such as financial and market performance, human resource performance, organizational efficiency, and customer-concentrated performance. However, for this research, operational performance was limited to the

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bank's profitability, equity, asset efficiency, and return on equity, which fall under the purview of the financial factor.

Keywords: Key Performance Indicators (KPIs), Forex (FX), Basel Committee on Banking Supervision (BCBS), Hong Kong and Shanghai Banking Corporation (HSBC), Coronavirus Disease 2019 (COVID-19), Contingency Funding Plans (CFPs), Leones (Le)

1. Introduction

Credit risk management is the process of assessing and managing the potential losses that a bank may face due to the default or failure of its borrowers or counterparties. It involves using credit models to estimate the risk level of each transaction and setting appropriate limits and reserves. A credit risk manager is responsible for various tasks related to credit research, analysis, approval, monitoring, compliance, and reporting. Credit risk management became more important and challenging after the global financial crisis, as regulators imposed stricter rules and standards (Basel, 2000; McKinsey & Company, 2023; SAS, 2023). Credit risk implies a potential risk that the counterparty of a loan agreement is likely to fail to meet its obligations as per the original loan agreement and may eventually default on the obligation. Credit risks can be classified into many forms, such as options, equities, mutual funds, bonds, loans, and other financial issues as well, which are extensions of guarantees and the settlement of these transactions.

Credit risk management is crucial for banks, as it influences their performance, earnings, and image. Credit risk is the chance of losing money when borrowers or counterparties fail to pay or honor their obligations. Banks need to keep track of, assess, limit, and evaluate credit risk in their whole portfolio and single transactions, as well as consider its connection with other kinds of risks. The Basel II Accord sets standards for banks to implement new methods for measuring and handling credit risk (Bessis, 2015).

Operational performance is critical for the banking sector, as it can have a significant impact on the overall performance and sustainability of the bank. By improving their operational performance, banks can not only reduce their costs but also increase their value proposition and customer trust and prepare for future challenges and opportunities in the banking industry (World Bank, 2020). Therefore, operational efficiency and performance are essential for banks to achieve their goals and objectives and to create value for their customers and stakeholders. Banks can use various strategies and tools, such as lean, digitization, robotics, analytics, workflow, and automation, to optimize their processes and systems and to reduce costs, errors, and risks. However, improving operational performance is an ongoing process that requires a clear vision, a systematic approach, and a supportive culture and governance. By enhancing their operational performance, banks can gain competitive advantage, customer loyalty, and readiness for the future (BCG, 2019; Deloitte, 2018; McKinsey, 2017; PwC, 2019).

However, improving operational performance is not a one-time effort but a

continuous journey that requires a holistic and systematic approach. Banks must identify their key performance indicators (KPIs) and benchmarks and monitor and evaluate their progress regularly. They must also align their operational performance with their strategic vision and goals and ensure they have the right culture, capabilities, and governance to support their transformation (Deloitte, 2018).

According to Standard Chartered Sierra Leone 2023, Standard Chartered is a market-leading financial service brand in Sierra Leone. The bank has been operating in Sierra Leone since 1894. In Sierra Leone, the bank business serves two client segments in three regions, supported by six global functions. The bank has operated in the country for over 125 years, operating in Freetown, with the country's first Agency Branch in Cline Town. Standard Chartered aspires to be the best international bank for its customers in Sierra Leone. The bank's heritage and values are expressed in its brand promise: *Here for Good*.

The bank's operations reflect its purpose, which is to drive commerce and prosperity through its unique diversity. The bank is present in 60 markets and serves clients in a further 85. The bank has a sustainable approach to business and strives to achieve the highest standards of conduct. The bank's business model and strategy are built to capture the opportunities inherent in its unique footprint through deep relationships with clients in the Sierra Leone market. Developing these relationships means using both tangible and intangible resources sustainably and responsibly, deploying them to achieve profit and returns. The bank derives more than 70 percent of its operating income and profits from FX income and has been rewarded with the Best Consumer Digital Bank from Global Finance in 2017. Leading by example to be the right partner for its stakeholders, the Bank is committed to building a sustainable business over the long term and is trusted in Sierra Leone for upholding high standards of corporate governance, social responsibility, environmental protection, and employee diversity. It employs 151 people, 53% of which are women. Standard Chartered Sierra Leone Ltd employees are of 4 nationalities, all of which are represented among senior management.

However, questions have been asked as to whether the bank has credit risk management strategies that influence its operational performance to benefit the shareholders of the bank. Hence this research aims to evaluate credit risk management and the impact on the operational performance of the Standard Chartered Bank in Sierra Leone.

2. Research Aim, Objective and Questions

2.1 Research Aim

The research aims to evaluate credit risk management and the impact it has on the financial performance of the Standard Chartered Bank in Sierra Leone.

2.2 Research Objective

To assess the credit risk management and its effect on the operational performance of the Standard Chartered Bank in Sierra Leone.

2.3 Research Questions

The research questions (RQ) will serve as the basis for the questionnaire and inform the data collection and, subsequently, data analysis, taking into cognizance the research methodology.

Research Question 1: Does the Bank Maintain a Credit Risk Management System that Prevent Financial Loss?

Research Question 2: Does the Management of the Bank Create a Healthy Credit Culture?

Research Question 3: Does the Bank make provision for Loan Advances?

Research Question 4: Has the Financial Performance of the Bank Improved?

3. Methodology

This study utilized a mixed methods model to collect both quantitative and qualitative data through surveys and interviews with the selected participants. Online sources, articles, the Standard Chartered Bank website, journals, and books were also used to gather data. The concurrent triangulation approach was used to analyze the data and inform the discussion and interpretation. This approach involves collecting quantitative and qualitative data at the same time to examine and compare the two sets of data to find similarities, differences, or a combination of both (Crewell, 2009; Greene, Caracelli, Graham, 1989; Morgan, 1998; Steckler, McLeroy, Goodman, Bird, & McCormick, 1992). The data integration usually occurs during the interpretation or discussion part of the study.

The participants were selected based on their experience of the main phenomenon using purposive sampling (Crewell, 2009) [8]. The sample size was 30 participants, who all received questionnaires. Descriptive and inferential statistics were used to analyze the data. Descriptive statistics, such as mean, median, and mode, were used to find the average or typical response to the variables. Inferential statistics were used to conclude the data. The quantitative findings were presented in tables and graphs, and the researchers used the data to summarize, describe, and explain the data concerning the research questions.

Published mixed methods studies often show quantitative statistical results first, followed by qualitative quotes that either confirm or contradict the quantitative findings. However, for this research, the qualitative and quantitative data will be discussed and interpreted in an alternating manner. While ideally, both methods are given equal importance, researchers may favour one over the other depending on their specific research objectives and context.

4. Literature Review

4.1 Introduction

Credit risk refers to the potential discrepancy between the expected and actual returns on an investment or loan (Conford, 2000). It also means the losses that result from credit customers failing or being unable to pay their obligations fully and timely (Coyle, 2000). Credit risk arises from various factors, such as: inadequate institutional capacity, unsuitable credit policies, unstable interest rates, poor management, improper laws, low levels of capital and liquidity, mandated lending, excessive licensing of banks, substandard loan underwriting, irresponsible lending, weak credit assessment, lack of non-executive directors, poor lending practices, government interference and insufficient supervision by the central bank (Kithinji, 2010). To mitigate these risks, the financial system needs to ensure sufficient capitalization of banks, a wide customer base, information sharing among lenders, interest rate stability, reduction of bad loans, growth of bank deposits, and expansion of credit to borrowers. Loan defaults and nonperforming loans should be minimized (Laker, 2007; Sandstorm, 2009).

Credit risk management is crucial for banks, as it influences their performance, earnings, and image. Credit risk is the chance of losing money when borrowers or counterparties fail to pay or honour their obligations. Banks need to keep track of, assess, limit, and evaluate credit risk in their whole portfolio and single transactions, as well as consider its connection with other kinds of risks.

The Basel II Accord sets standards for banks to implement new methods for measuring and handling credit risk (Bessis, 2015). Among the various risks that financial institutions face are: interest rate risk, foreign exchange risk, political risk, market risk, liquidity risk, operational risk, and credit risk (Kithinji, 2010; Cooperman, Gardener, and Mills, 2000). Sometimes, commercial banks and other financial institutions have made unverified decisions, resulting in loan defaults and nonperforming loans, excessive credit expansion, and directed lending (Kithinji, 2010). To mitigate the adverse effects, policies have focused on bank and Non-Banking Financial Institution (NBFI) mergers, improved banking practices with strict lending, revision of laws to comply with global standards, well-capitalized that are expected to be profitable, liquid banks that can satisfy their depositors' needs, and keeping the required cash levels with the central bank which means less cash is available for lending (Kithinji, 2010). This has caused a decline in interest income for commercial banks and other financial institutions and, consequently, a drop in profits (De Young Dziobek, 1998). The emphasis on compliance with global standards, capitalization, and liquidity reflects an ongoing effort to create a more stable and resilient financial sector. However, the impact on interest income and profits underscores the challenging balance between risk management and financial performance.

4.2 Credit Risk Management

Credit risk management has become a hot topic due to the ongoing global economic crises, the rapid digital transformation, the recent technological innovations, and the growing use of artificial intelligence in banking (PwC, 2019). Regulators expect banks to have a clear and comprehensive understanding of their customers and their credit risk and to be transparent and capable in this area. As the Basel regulations change, banks will face more regulatory pressure. To meet the changing regulatory demands and to manage risk better, many banks are changing their credit risk practices. However, banks that see this as only a compliance issue are missing the point. Effective credit risk management can also enhance their overall performance and give them a competitive edge. Obstacles to effective credit risk management are as follows:

- a) **Poor data management.** Not being able to access the right data when needed leads to frustrating delays.
- b) **Lack of a group-wide risk modeling framework.** Without it, banks cannot produce complex and meaningful risk measures and get a holistic view of group-wide
- c) **Repeated rework.** Analysts cannot easily modify model parameters, which causes a lot of unnecessary work and lowers a bank's efficiency ratio.
- d) **Inadequate risk tools.** Without a strong risk solution, banks cannot detect portfolio concentrations or re-grade portfolios frequently enough to manage risk well.
- e) **Burdensome reporting.** Manual, spreadsheet-based reporting processes overwhelm analysts and Information Technology.

4.2.1 Best Practices in Credit Risk Management

To manage credit risk effectively, banks need to have a comprehensive view of their overall credit risk exposure, both at the individual and portfolio levels. However, many banks face the challenge of integrating data from different sources and business units. Without a proper risk assessment, banks cannot ensure that their capital and loan loss reserves are sufficient to cover the potential losses. This exposes them to regulatory and market pressures, as well as financial losses. Therefore, banks should adopt an integrated, quantitative credit risk solution that can help them reduce loan losses and align their capital reserves with their risk profile. This solution should enable banks to quickly implement simple portfolio measures, as well as to advance to more complex credit risk management techniques as their needs change. The solution should also provide improved model management throughout the modeling life cycle. Timely scoring and limit monitoring. Strong stress-testing capabilities. Data visualization and business intelligence tools that deliver relevant information to the right people at the right time (PwC, 2019).

4.2.2 Bank Credit Risk Management Practices: Yesterday and Today

One way to manage credit risk is to set a limit of credit for each borrower, and sometimes also for different regions and industries. This way, a bank can control how much risk it takes; however, this method may not be enough to deal with the falling profitability of loan markets, as collateral and existing relationships are not very effective. This method was the main way to analyze credit risk until the early 1990s, when banks only reviewed individual loans and kept them until they matured. Nowadays, the banking industry has improved its credit risk management. Banks are more focused on managing credit risks and have shifted from transaction management to portfolio management. They have also moved from monitoring to practicing and predicting their performance. Banks still use traditional credit risk management tools, but they have become more advanced. Banks have developed various tools and models to assess and forecast the performance and management of portfolio risks, which gives them a competitive edge. Despite the variations in credit risk management practices, any bank's credit risk management is based on four pillars:

- a) the suitable credit risk environment,
- b) reliable credit-granting process or criteria that show the bank's target market,
- c) suitable credit administration, measurement, and monitoring process,
- d) sufficient controls over credit risk.

Therefore, both traditional and modern credit risk management in banks require reviewing the creditworthiness of counterparties, setting credit limits for counterparties, evaluating credit risk, and reporting credit limits and exposures to management.

4.2.3 Recent Trends in Credit Risk Management by Banks

Credit risk management is changing rapidly in the banking industry. Banks want to centralize, standardize, consolidate, and timely manage their credit portfolios with efficient tools. Some banks are also investing in what-if analysis, stress testing, macro-hedges, and capital market risk management. Moreover, banks are realizing the importance of environmental and social factors in credit risk assessment. These factors can affect both their clients and themselves. To cope with these challenges, banks are using quantitative models to measure and manage credit risk. These models, such as credit scoring models, are widely used for consumer lending and mortgages. They help banks to make better credit decisions and reduce losses. For example, Halifax, the UK's biggest mortgage bank, and Hong Kong and Shanghai Banking Corporation (HSBC), one of the world's largest financial institutions, have adopted quantitative models for their credit risk management strategies.

4.2.4 The Advantages and Disadvantages of Credit Risk Management

Credit risk management is crucial for banks, as it influences their performance, earnings, and image. Credit risk is the chance of losing money when borrowers or counterparties fail to pay or honor their obligations. Banks need to keep track of, assess, limit, and evaluate credit risk in their whole portfolio and single transactions, as well as consider

its connection with other kinds of risks. The Basel II Accord sets standards for banks to implement new methods for measuring and handling credit risk.

The advantages of Credit risk management include (Bessis, 2015):

- Credit risk management allows for the prediction and measurement of potential risk factors in any transaction.
- The bank's management can also make use of certain credit models which can act as a valuable tool that can be used to determine the level of lending measuring the risk.
- It is always better to have some alternative techniques and strategies for transferring credit, pricing, and hedging options.

The disadvantages of Credit risk management include:

- Deciding on how good a risk you are cannot be entirely scientific, so the bank must also use judgments.
- Cost and Control associated with operating a credit scoring system.
- With the existence of different models, it is hard to decide which to use; more often than not, companies will take a one-model-fits approach to credit risk, which can result in wrong decisions.

4.3 Financial Performance

The financial performance came from the word 'performed', which means 'to execute', 'to accomplish', or 'to deliver' (Kithinji, 2010). Many economists view institutions and organizations as engines for driving economic, social, and political progress. The sustained performance of the organizations contributes to the development and growth of the nation. Organizational performance is one of the most significant factors in management research and arguably the most important indicator of organizational performance (Melwani, 2019). The financial performance of power sector companies was the main objective of a study that examined the differences in financial performance among various energy producers. The study found that the firms that used fossil fuels to generate electricity performed better (Rai & Prakash, 2019). The performance of banks has been of great interest in academic research. According to (Nyathira, 2012), bank performance is a multidimensional concept that comprises four components: financial and market performance, human resource performance, organizational efficiency, and customer-focused performance.

4.4 Customer Value Creation

Creating value for customers is crucial for enhancing financial performance; moreover, salespeople play a key role in delivering customer value through their interactions and strategic relationships with clients (Schwepker & Schultz, 2015). Profitability is a vital factor for any commercial bank. Banking firms also evaluate their business activities to understand their profitability performance. CAMEL (Capital Adequacy, Asset Quality, Management, Earning, and Liquidity) analysis is a tool that banks use to measure their economic performance (Kithinji, 2010). Banks apply CAMEL model analysis to assess

various kinds of risks and manage them effectively. Financial ratios have been widely used by scholars to examine the bank's financial performance. Banks use CAMELS ratings to check their financial condition and performance (Ali & Dhiman, 2019). In the current marketing era, organizations that satisfy their customers benefit from higher retention levels and greater profitability due to increased customer loyalty. This is why it is important to keep customers happy. Customer satisfaction is believed to be closely related to understanding customer behaviour. Specifically, customer satisfaction is a key factor in shaping customer demand for future purchases.

4.5 Liquidity Risk

Liquidity risk is the possibility that a bank cannot fulfill its financial commitments in the present or the future. A bank may face liquidity problems if it has to pay out more cash than it receives, for example, due to large withdrawals by depositors, big loans to borrowers, unforeseen market changes, or triggered contingent liabilities. Another reason may be that other parties refuse to trade with or lend to the bank. A bank also faces liquidity risk if the markets it relies on become less liquid. Liquidity risk can worsen other risks, such as credit risk and market risk.

4.5.1 Basel Committee's New Guidelines

The Basel Committee on Banking Supervision (BCBS) has updated its 2000 guidance on liquidity risk management and supervision based on the lessons from the recent financial crisis. The new principles aim to establish a strong framework for managing liquidity risk that is consistent with the overall risk management framework of the bank. The new principles emphasize the need for

- a) A clear governance structure and a firm-wide liquidity risk appetite.
- b) A comprehensive measurement of liquidity risk, including off-balance sheet items, securitisation activities, and other potential sources of liquidity stress that were overlooked during the crisis.
- c) A proper alignment of the incentives of different business units with the liquidity risk they generate for the bank.
- d) A range of stress tests that capture both specific and general market conditions, and a link to effective contingency funding plans.
- e) A rigorous management of intraday liquidity risk and collateral positions.
- f) A sufficient buffer of unencumbered, high-quality liquid assets that can withstand prolonged periods of liquidity pressure.
- g) A regular and transparent disclosure of both quantitative and qualitative information on the bank's liquidity risk position and management.

The BCBS expects the principles to be applied according to the size and nature of the bank's activities. The new principles also call for a more active role of supervisors in reviewing and intervening in the bank's liquidity risk management.

Liquidity risk management is a vital aspect of risk management, just like credit risk and operational risk. The guidelines are so strong that they do not require any capital

charge. However, liquidity risk management still needs careful attention from all parts of the bank to ensure its survival. Banks want to avoid the risk of going bankrupt or facing a negative reputation and publicity due to poor liquidity management.

The BCBS has published new guidelines for managing and overseeing liquidity risk. The guidelines are divided into different areas:

- **Basic principles for liquidity risk management and supervision.** A bank must manage liquidity risk effectively. A bank must set up a strong framework for liquidity risk management that ensures it has enough liquidity, including a buffer of unencumbered, high-quality liquid assets, to cope with various stress scenarios, including those that affect both unsecured and secured funding sources.
- **Liquidity risk management governance:**
 - a) A bank must state clearly its liquidity risk tolerance that matches its business strategy and its position in the financial system.
 - b) Senior management must design a strategy, policies, and procedures to handle liquidity risk in line with the risk tolerance and to guarantee that the bank has enough liquidity.
 - c) A bank must factor in liquidity costs, benefits, and risks in the product pricing, performance evaluation, and new product approval process for all major business activities (both on- and off-balance sheet), thus ensuring that the risk-taking behaviour of individuals business units is consistent with the liquidity risk exposures they generate for the bank as a whole.

4.6 Review of Selected Articles

Numerous research studies have been undertaken on the banking sector. However, a few related research have been selected and analyzed for this research and are mentioned below:

The paper by Kithinji (2010) examines the relationship between credit risk management and the profitability of commercial banks in Kenya. The paper uses data from 43 commercial banks from the period 2004 to 2008 and employs descriptive statistics, correlation analysis, and regression analysis to test the hypotheses. The paper finds that:

- There is a significant positive relationship between the amount of credit and the level of non-performing loans.
- There is a significant negative relationship between the level of non-performing loans and the profitability of the banks.
- There is a significant positive relationship between the amount of credit and the profitability of the banks.
- Credit risk policies adopted by the banks have a significant impact on the profitability of the banks.

The paper concludes that credit risk management is crucial for the performance of commercial banks in Kenya and recommends that banks should adopt sound credit risk policies, enhance loan appraisal and recovery processes, and diversify their loan

portfolios. The paper also suggests areas for further research, such as the impact of macroeconomic factors on credit risk and profitability and the comparison of credit risk management practices across different regions and countries.

Enad, & Gerinda, (2022) affirms that enhancing the financial performance of the banks: the role of customer response and operations management. This paper examines how customer response and operations management affect the financial performance of banks, using a questionnaire survey of Al-Tadamon Islamic Bank in Sudan. The paper finds that customer response has a positive impact on both operations management and financial performance and that operations management also influences financial performance. However, the paper does not find any mediating role of operations management between customer response and financial performance. The paper suggests that banks should improve their customer response speed and customer integration to enhance their performance in a competitive market.

Athaley *et al.* (2020) review the existing literature on the factors that affect the performance of banks, such as profitability, efficiency, non-performing assets, and governance. It identifies the research gaps and suggests directions for future studies. The paper finds that the empirical evidence from previous studies is inconclusive or inconsistent and that there is a need for a more comprehensive and comparative analysis of bank performance across different regions and contexts.

Fadun, & Oye (2020) examine how operational risk management practices affect the financial performance of commercial banks in Nigeria. The authors use 10 years of data from selected banks and apply a linear multiple regression model to analyze the relationship between operational risk management and financial performance indicators. The results show that there is a positive and significant relationship between operational risk management and financial performance, implying that sound operational risk management practices can improve the profitability and efficiency of banks. The paper recommends that bank management should invest more resources in understanding and managing operational risk to enhance their financial performance and stability,

The paper by Vittas (1991) examines the use and misuse of bank operating ratios, such as interest margin, cost/income ratio, and return on assets, as measures of bank efficiency. The paper argues that these ratios are influenced by many factors, such as inflation, leverage, asset composition, and taxation, which are not directly related to bank efficiency. Therefore, the paper suggests that these ratios should be used with caution and supplemented by other indicators, such as market-based measures of bank performance and risk-adjusted measures of bank profitability. The paper also provides some empirical evidence on the variation of bank operating ratios across countries and over time and discusses the implications for bank regulation and supervision.

The paper by Ahmadyan (2018) investigates the relationship between credit risk management and the profitability and survival of banks in Iran. Credit risk management is the process of analyzing the creditworthiness of borrowers and minimizing the potential losses from loan defaults. The paper defines a suitable system for measuring credit risk management based on existing literature and uses the panel data method to

estimate a model with the financial statements of banks for the period 2005-2016. The paper finds that there is a significant and negative relationship between credit risk management and the profitability and survival of banks, meaning that poor credit risk management reduces the performance and viability of banks. The paper suggests that banks should adopt more effective and prudent credit risk management practices to enhance their financial stability and competitiveness.

The review of the selected articles indicates that the empirical evidence and findings from previous studies are inconclusive; hence the reason for this research. This research will add to the existing body of knowledge on the research of the banking sector.

5. Results and Discussion

The researcher discussed the results of the findings in this section. The research analysis was done following the research aim, research objective, research questions, methodology, and literature reviewed to evaluate the credit risk management and the impact on the financial performance of the Standard Chartered Bank in Sierra Leone.

RQ 1: Does the Bank Maintain a Credit Risk Management System that Prevent Financial Loss?

Credit risk is the possibility that the bank will lose money if a borrower or a party to a financial contract does not fulfill their obligations. This mainly comes from the bank's lending activities to customers. The bank takes into account and combines all aspects of credit risk exposure (such as the risk of default by individual borrowers and by sectors) for risk management reporting purposes. The Board of Directors has given the authority to manage credit risk to its Board Credit Committee. A different risk management group, under the supervision of the Board Credit Committee, is in charge of overseeing the bank's credit risk. This includes:

- a) Developing credit policies that specify the requirements for collateral, credit evaluation, risk rating and reporting, legal and documentary procedures, and adherence to regulatory and legal standards.
- b) Setting up the approval structure for granting and renewing credit facilities. The bank's Credit Committee must approve all facilities beforehand. The Board of Directors must also approve larger facilities as needed.
- c) Evaluating and monitoring credit risk: The bank's Credit Committee examines all credit exposures before committing facilities to customers. The same evaluation process applies to renewals and reviews of facilities. Restricting the exposure to certain borrowers and sectors (for loans and advances).
- d) Creating and updating the bank's risk rating system to classify exposures based on the level of risk of financial loss they pose and to direct management's attention to the related risks. The risk rating system helps to decide whether impairment provisions are needed for specific credit exposures. The current risk rating framework has five grades that indicate different levels of risk of default and the

availability of collateral or other ways to reduce credit risk. The final approving executive/ committee as appropriate, is responsible for assigning risk grades. The Credit Policy Committee/Early Alert Committee regularly reviews the risk grades.

- e) Review and report on compliance with exposure limits for various industries and products. Take corrective action based on the Criticized Assets Committee’s feedback on loan/advances portfolios.
- f) Advise and guide the Bank on credit risk management best practices using specialist skills.

The foregoing analysis indicates that the bank maintained a credit risk management system that prevented financial Loss. In addition, they also categorised loans into performing and non-performing loans to monitor the risk of financial loss on loans.

A performing loan is a loan that is being repaid on time and according to the agreed terms. It is an asset for the bank, as it generates income from interest and fees. However, performing loans also have some effects on the bank's asset base, which is the total value of the bank’s assets. Performing loans has both positive and negative effects on the bank's asset base. It can increase the value and income of the bank’s assets, but it also exposes the bank to credit risk and capital adequacy risk. The bank has to manage its performing loan portfolio carefully to optimize its assets base and profitability. On the other hand, when a bank is unable to recover non-performing loans, it can repossess assets pledged as collateral or sell off the loans to collection agencies. When a bank has too many non-performing loans on its balance sheet, it poses cash flow problems for the bank since it is no longer earning income from its credit business.

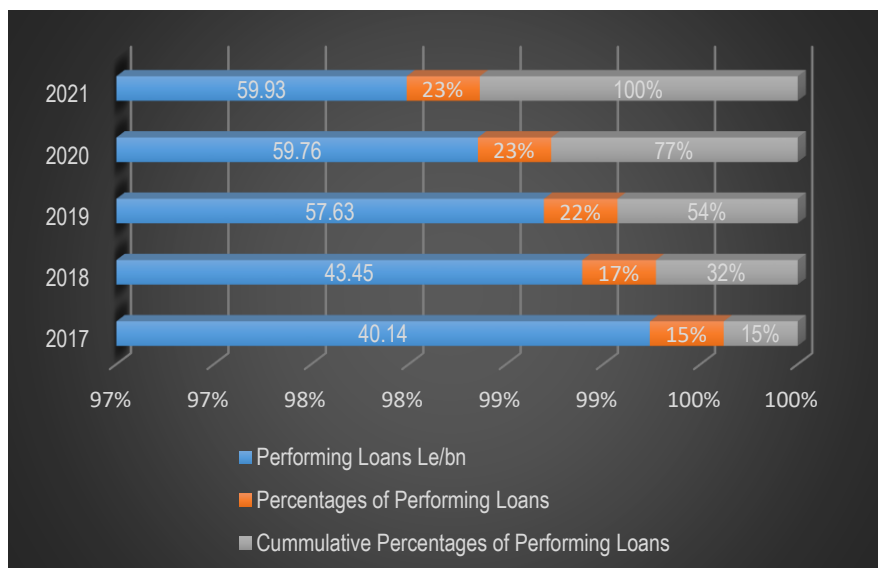


Figure 1: Performing Loans

Figure 1 above shows the analysis of the performing loans that indicated an improvement in the management of loans. The performing loan rating was 15% in 2017 equivalent to Le 40.14 billion and with a steady improvement the rating of the performing

loan was at 23% in 2023 an equivalent of Le 59.93 billion; this shows an improvement in the management of credit facilities provided to the bank customers and also enhances the shareholders' funds.

Further analysis of the credit facilities is shown in Figure 2 below. The management of the non-performing loans has shown significant improvement from 23% in 2017 and the equivalent of Le5.32 billion to 18% in 2023 and the equivalent of Le 4.1 billion. Although there have been fluctuations in the management of non-performing loans, management has been able to bring a quick turnaround; for instance, in 2019, the non-performing loans were at 6% but increased to 27% in 2020, which is explained as the effect of the COVID-19 however, was reduced to 18% in 2021.

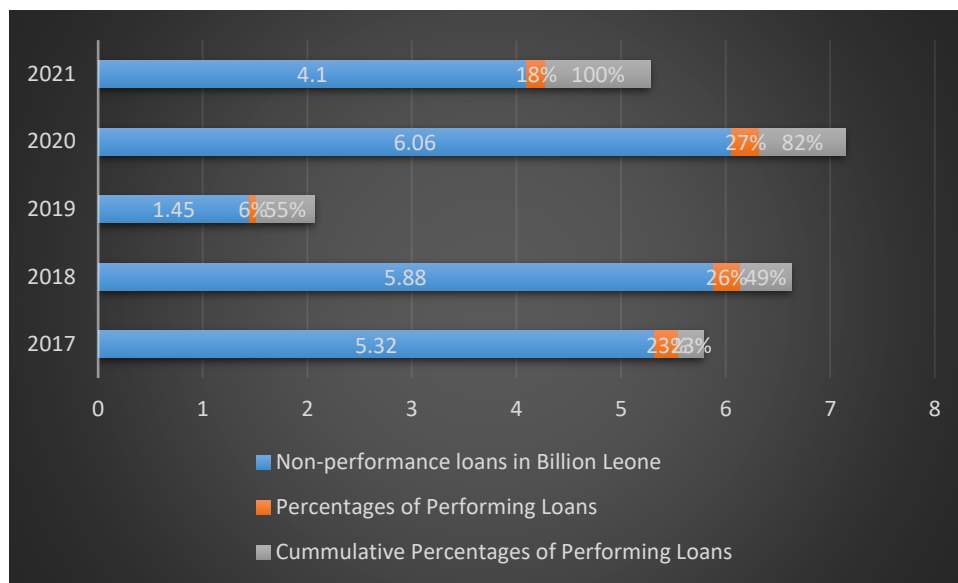


Figure 2: Non-Performing Loans

The analysis of the performing and the non-performing loans revealed that the risk management group, under the supervision of the Board Credit Committee, is effective in the management of the bank's credit risk.

RQ 2: Does the Management of the Bank Create a Healthy Credit Culture?

A bank's credit culture is a combination of its policies, practices, and experiences that shape its lending standards. A weak credit culture can negatively affect the bank's asset quality. It can lead to lending for non-business purposes, ignoring the loan objectives, and setting unrealistic repayment terms, to mention but a few. To demonstrate a strong credit culture, the top management should foster a positive and respectful environment for their employees. The management should also establish a sound credit culture and take proactive measures to prevent the threat of credit risk. The Central Bank's regulatory policies assist the bank in managing credit risk, and the credit/lending policy includes essential information from the bank's internal policies. The bank uses an internal credit risk rating system that helps the employees in their debt classification tasks. This classification improves the bank's performance. All the staff are well-qualified, highly

competent, well-experienced, and well-placed in their roles and duties. All staff in the transaction office are fully aware of the credit culture, policies, and process and control activities of the bank (Management structure, loan review, internal audit).

RQ3: Does the Bank make provision for loan advances?

A provision on loan advance is a sum of money that a bank or a financial institution allocates to cushion the potential losses or risks from its lending activities. This is a vital accounting practice that ensures the reliability and validity of the financial statements and adheres to the regulatory standards of the banking authority. A provision on loan advance also indicates the creditworthiness and the market situation of the borrowers and the sector in which the bank or the financial institution operates. By making sufficient provisions, the bank or the financial institution can shield itself from the negative impacts of loan defaults, delayed payments, or restructured loans. Although the performing loans and the non-performing loans management has improved significantly as explained in the foregoing under RQ1, the management of the bank made enough loan advances provision from 9% in 2017 and 28% in 2021. The management of the bank also took cognizance of 2020 as a risky period i.e. the COVID-19 period, hence increased the provision for loan advances to 31% to cushion any eventuality of loan default.

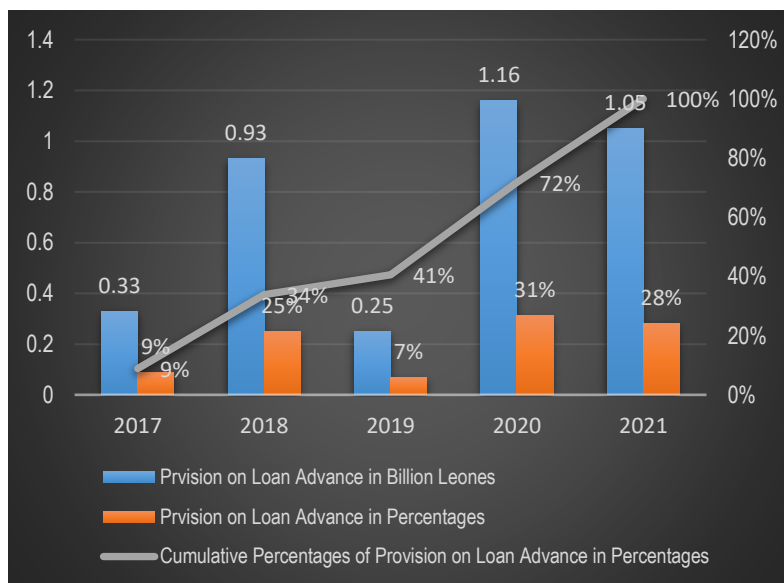


Figure 3: Loan Provisions

Figure 3 shows the pattern of loan provision for the period under review. The bank sets aside some funds to protect itself from the possible losses or risks that may arise from its lending activities. This is an essential accounting practice that ensures the accuracy and credibility of the financial statements and complies with the regulatory standards set by the banking authority. A provision on loan advance also reflects the credit quality and the market condition of the borrowers and the sector that the bank or the financial institution serves. By making adequate provisions, the bank or the financial institution

can mitigate the negative effects of loan defaults, late payments, or restructured loans. The foregoing analysis revealed the bank’s commitment to “Good Practice”.

RQ4: Has the operational performance of the bank improved?

The operational performance for this research is limited to the bank’s profitability, equity, asset efficiency, and return on equity. These indicators are crucial for any organization, as evidenced by the excellent results of Standard Chartered Bank Sierra Leone in terms of equity, asset efficiency, and return on equity. However, the idea that bank performance is a multidimensional concept with components such as financial and market performance, human resource performance, organizational efficiency, and customer-centered performance aligns with common perspectives in the field of banking and finance. Bank performance is often analyzed holistically by considering these and other relevant dimensions. Keep in mind that the specific components may vary depending on the methodology used by researchers or analysts. These components collectively offer a comprehensive view of a bank's performance. It's worth noting that the emphasis on specific components may vary based on the objectives of the analysis and the particular challenges or opportunities facing a given bank. Hence the reason for the focus of this research on the bank’s profitability, equity, asset efficiency, and return on equity.

The excellent results of Standard Chartered Bank Sierra Leone in terms of equity, asset efficiency, and return on equity are shown in Figure 4 below.

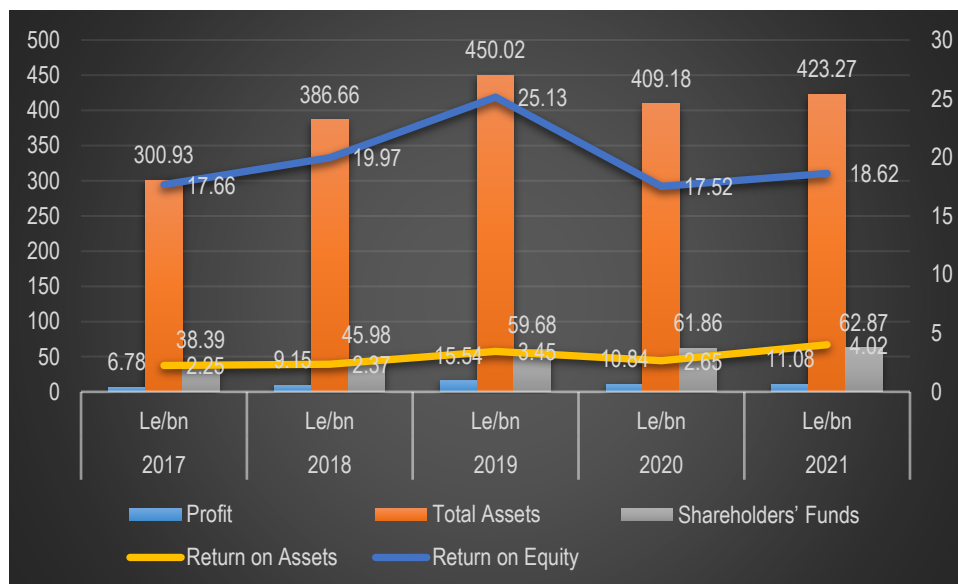


Figure 4: Operational Performance

The banks’ Profit, Total Assets, Return on Assets, and Return on Equity improved significantly from 2017 to 2019 except in 2020, where there was a decline this may have been the result of the COVID-19 pandemic, however, in 2021, banks’ Profit, Total Assets, Return on Assets and Return on Equity increased. On the other hand, the Shareholders’ Funds showed an increase in trend from 2017 to 2021. These foregoing increases in

performance of the banks' Profit, Total Assets, Return on Assets, Shareholders' Funds, and Return on Equity indicate the effective operational performance of the bank.

RQ 5: Has the liquidity ratios improved?

Liquidity risk is the possibility that a bank cannot fulfill its financial commitments in the present or the future. A bank may face liquidity problems if it has to pay out more cash than it receives, for example, due to large withdrawals by depositors, big loans to borrowers, unforeseen market changes, or triggered contingent liabilities. Another reason may be that other parties refuse to trade with or lend to the bank. A bank also faces liquidity risk if the markets it relies on become less liquid. Liquidity risk can worsen other risks, such as credit risk and market risk.

Liquidity risk management requires a bank to have a robust process for identifying, measuring, monitoring, and controlling its liquidity risk. A bank should proactively manage its liquidity risk exposures and funding needs across different legal entities, business lines, and currencies, considering the legal, regulatory, and operational constraints on liquidity transfers. A bank should devise a funding strategy that ensures effective diversification of its funding sources and maturities. A bank should also manage its intraday liquidity positions and risks to fulfill its payment and settlement obligations promptly under both normal and stressed situations, and thereby support the smooth operation of payment and settlement systems. A bank should keep track of its collateral positions, distinguishing between assets that are encumbered and those that are not. A bank should perform stress tests regularly for various institution-specific and market-wide stress scenarios (both individually and in combination) to detect sources of potential liquidity pressure and to verify that its current exposures are consistent with its established liquidity risk tolerance. A bank should have formal contingency funding plans (CFPs) that clearly outline the strategies for dealing with liquidity shortages in crises. A bank should hold a buffer of unencumbered, high-quality liquid assets as a protection against various liquidity stress scenarios, including those that result in the loss or impairment of unsecured and normally available secured funding sources.

As Figure 5 below shows, Standard Chartered Bank has a high liquidity ratio for all the years from 2017 to 2021 that were studied. This means that the bank has a healthy balance of liquid assets for each year.

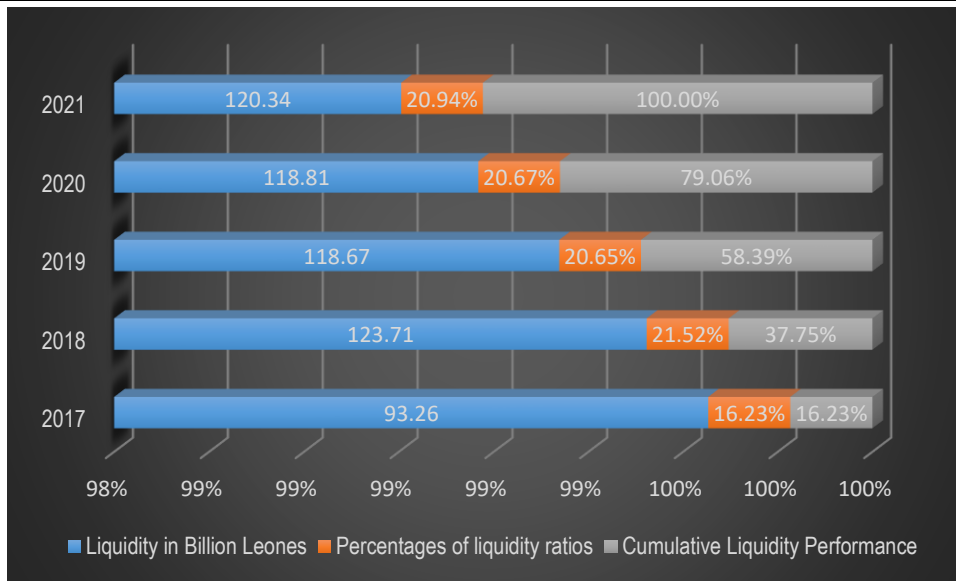


Figure 5: Liquidity Ratio

However, the research findings revealed some issues with the bank’s credit risk management. First, despite having strong external controls, the bank lacks enough skilled, honest, and reliable staff to monitor the Planning, Controlling, and Collection of the loans it gives out. This has resulted in many bad loans that are not repaid. Second, the bank does not have an effective enterprise risk management scheme that follows the prudential credit guidelines from the Bank of Sierra Leone. This has reduced the bank’s ability to control the quality of the loans it gives out. Third, the bank does not have realistic methods to grant loans, such as checking the creditworthiness of the potential borrowers. This has made it harder for the bank to evaluate the risk of the loans it gives out.

6. Summary, Limitation, Conclusion, and Recommendation

6.1 Summary, Limitation Conclusion

Credit risk management is based on some key principles: a clear structure, assigned responsibility and accountability, prioritized and disciplined processes, and effective communication (Lindergren, 1987). Bank credit risk management faces two major challenges: the tendency to underestimate the losses after they happen, and the pressure to compete with non-bank alternatives that offer cheaper financing options to large and stable firms (Demirguc-Khunt and Huzinga, 1999). To reduce the losses from the risks they take, banks need to organize and manage their lending function professionally and proactively and use advanced techniques to measure and manage risks (Gill, 1989). These principles and challenges underscore the need for a systematic and proactive approach to credit risk management. The acknowledgment of the challenges, such as underestimation of losses and competition from non-bank alternatives, emphasizes the importance of staying vigilant and competitive in the financial landscape.

In the last decade or so many banks have started to make use of models to assess the risks for the credit that they lend. The credit risk models are very complex and include algorithm-based methods of assessing credit risk. Such a model aims to help banks in quantifying, aggregating, and managing credit risk. Despite the method, the focus of credit risk assessment stays on credit quality and risk exposure.

Liquidity risk management requires a bank to have a robust process for identifying, measuring, monitoring, and controlling its liquidity risk. A bank should have formal contingency funding plans (CFPs) that clearly outline the strategies for dealing with liquidity shortages in crises. A bank should hold a buffer of unencumbered, high-quality liquid assets as a protection against various liquidity stress scenarios, including those that result in the loss or impairment of unsecured and normally available secured funding sources.

Bank performance is a multidimensional concept with components such as financial and market performance, human resource performance, organizational efficiency, and customer-centered performance that align with common perspectives in the field of banking and finance. Bank performance is often analyzed holistically by considering these and other relevant dimensions. Keep in mind that the specific components may vary depending on the methodology used by researchers or analysts.

The operational performance has a wide range of factors such as financial and market performance, human resource performance, organizational efficiency, and customer-concentrated performance however, for this research operational was limited to the bank's profitability, equity, asset efficiency, and return on equity which follows within the purview the financial factor.

In conclusion, the research findings unfold effective management of credit risk management that has improved the operational performance and liquidity of the bank.

6.2 Recommendations to Management

The research findings reveal limitations in the credit management of the bank hence this research suggested the undermentioned for management consideration:

The risk management department of the bank should receive specialized job training to enhance its skills in debt collection, credit assessment, and data analysis. This is important because they interact with customers and need to be equipped with the right skills to provide excellent service to the customers. The bank should be aware of market and regulatory changes and take steps to diversify its loan portfolios to reduce concentration risk. The bank should target new segments to achieve this objective. The bank should develop a comprehensive system of criteria for its customers and group them into portfolios based on their risk contributions. To achieve this, the bank should also update its credit database frequently and use modern tools such as credit derivatives. The bank should review its credit policy to ensure that the collateral value exceeds the loan amount. Additionally, the bank should integrate credit risk management among all functional departments to ensure that all departments are working together toward achieving a common goal.

6.3 Recommendations for Further Studies

Bank performance is a complex concept that encompasses various components, including financial and market performance, human resource performance, organizational efficiency, and customer-centered performance. However, this research focuses solely on the bank's profitability, equity, asset efficiency, and return on equity as indicators of its performance. It is recommended that further research be conducted on market performance, human resource performance, organizational efficiency, and how customer-centered performance aligns with common perspectives in the banking sector.

Conflict of Interest Statement

This research is free from any conflict of interest, and there are no anticipated ethical issues.

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