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The Effect of Credit Risk Management on Financial Institutions in Sierra Leone

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Abstract: The aim of study is to examine the effect of credit risk management on the performance of financial institutions in Sierra Leone: A case study of Sierra Leone commercial bank Makeni branch. The study specific objectives were; examine the factors influencing credit performance, effects of credit risk management on the performance and the ways of credit risk management on the performance of the Sierra Leone Commercial Bank (SL) Limited. In carrying out the research study, the researcher used qualitative method. A descriptive research designed is used in conducting the findings. Purposive sampling technique is used in order to obtain data from the respondents. The target population of the study is 20 while the sample size is 6 respondents. The findings revealed that (67%) of respondents agreed that internal factors greatly influence loan performance while (33%) of participants agreed that external factors are those that influence the performance of Sierra Leone commercial Bank, Makeni Branch. The research implies that the following internal factors like capital adequacy, credit risk, management efficiency, liquidity management and poor location of the institution have great impact in terms of influencing the daily activities of the institution. The institution has absolute control over such factors either in decision making process or any other action they may wish to take over in the institution while the following external factors like inflation rate, interest rate, loan size, loan policies and savings rate that affects the operation of the institution. The reason being external factors are those factors which the institution has little or no control over of in terms of it operational activities. The research also revealed the effect of credit risk like reducing operation costs, causes of economic down turn, it affect changes in interest rate and it reduces profit and loss account at Sierra Leone commercial Bank Makeni Branch. The study recommends that Sierra Leone commercial bank Makeni branch should establish a department of risk management that will enable them to minimize or control their credit risks and also should make diversification in the credit facilities in order to reduce the credit risk.

Keywords: Banks, Credit Control, Economy, Financial Institutions

1. Introduction

This research is conducted in order to assess the effect of credit risk management on the performance of financial institutions using a case study of Sierra Leone Commercial Bank Makeni Branch. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable limits. Bank need to manage the credit risk inherent in the entire range as well as individual credit risk and other risks.

Generally the aim of risk management is not simply to reduce or even to eliminate risk it is also view the process of recognition, measurement and control of risk that an investor faces. Indeed this may not be possible given various difficulties of measuring risk and the limitations of the instruments for controlling risks. Risk management must be of continuous process the composition of investor's portfolio and the risk of the assets therein, as well as the objectives and constraints of the investor change overtime. However, the need for risk management has increased sharply in the past three decades. Risk management ensures that the risk-taking part of investing is being carried out in a controlled and understood manner. Chapter one will focus on the background to the study, problem statement, significance of the study, aim and objectives of the study, research questions, scope of the study, organisations of the study, definition of key terms and Acronyms.

1.1. Background of the Study

Today, world over, commercial banks are the largest financial institutions with branches and subsidiaries throughout everyone's life. There are plenty of differentiations between types of banks, and much of these differentiations rest in the products and services that offer [14]. Commercial Banks are the major financial intermediaries in any economy and they are the major providers of credits to the household and corporate sector and operate the payment mechanism in Sierra Leone. The Banks of Sierra Leone are closely related to economic growth through the financial services they provide. The intermediary role of banks is considered as the accelerator of economic growth. Therefore, the stability of the banking sector is considered as a precondition for economic stability and growth [4]. The stability of the banking sector depends on its profitability and capital adequacy [3]. The banks face many risks due to their dynamic structure and the complex nature of the economic environment in which they operate.

However, commercial banks in Sierra Leone are exposed to different types of risks, which affect their activities and performance. The main aim of commercial banks is to maximize shareholder's wealth through the process of risk assessment cash flow assessment by bank's managers in different areas of utilization. Credit risk is one of the most significant risks that banks face, considering that granting credit is one of the main sources of income in commercial banks. Therefore, the management of the risk related to that credit affects the profitability of the banks [2]. The importance of credit risk management in banks is due to its ability in affecting the banks' financial performance, existence and growth.

Credit creation is the main income generating activity for the banks. But this activity involves huge risks to both the lender and the borrower. When financial institutions issue loans, there is a risk of borrower default. When banks collect deposits and on-lend them to other clients, they put clients' savings at risk. The risk of a trading partner not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly endanger the smooth functioning of a bank's business. The default of small number of borrowers may result to large losses for a financial institution which can lead to massive financial distress affecting the whole economy [1].

1.2. Problem Statement

Providing credit facilities to members is an importance aspect to commercial banks thus the significance of credit risk management in these institutions. Weak credit risk management is the primary cause of many commercial banks' failures in Sierra Leone. It also noted that inadequacy of banks in controlling of loan quality, poor leadership and incompetency of staffs could also be other problems that may lead to credit risk management in banking sector in Sierra Leone. In order for bank to manage these challenges more effectively and efficiently its needs to apply and use common approaches in terms of customer's credit selection and implementing better ways of analyzing in the following methods: to understand the bank's capacity, capital, character, collateral, conditions and control. Generally, the banking institutions in Sierra Leoneans are expected to manage their credit risk to avoid exposing themselves to unnecessarily high level risk and subsequently a decline in returns. In most cases there are certain risks contained in a bank's principal activities, such as those involving its own balance sheet and its basic business of lending and borrowing, which are not all borne by the bank itself. In many instances, the institution will eliminate or mitigate the financial risk associated with a transaction by proper business practices; in other words, it will shift the risk to other parties through a combination of pricing and product design. In order for banks to reduce such problems they need to recognize that an institution do not need to engage in business in a manner that unnecessarily imposes risk upon it, nor should it absorb risk that can be efficiently transferred to other participants. Rather, it should only manage risks at the organization's level that are more efficiently managed than by the market itself or by their owners in their own portfolios.

Unfortunately, based on the research findings it is noted that there are gaps like the impaired credits or poor asset quality, the ratio of non-performing loans was extremely high levels in the commercial banking sector, increase in non-performing credit ratios are shown irregular or inadequate credit guarantees, ineffective credit risk management and excessive interventions in the lending process have negative effect on the profitability of banks. As a result of these gaps the researcher seek to bring possible solutions on how to reduce or mitigate the effects of credit risk management on the performance of financial institutions in Sierra Leone.

1.3. Aims of the Study

The aim of this work is to investigate the effect of credit risk management on the financial performance of commercial banks in Sierra Leone.

1.4. Research Objectives

1. To examine the factors influencing credit performance at the Sierra Leone Commercial Bank (SL) Limited.
2. To evaluate the effects of credit risk management on the performance of the Sierra Leone Commercial Bank (SL) Limited.
3. To assess the ways of credit risk management on the performance of the Sierra Leone Commercial Bank (SL) Limited.

2. Literature Review

2.1. Theoretical Framework

Theories are formulated to explain, predict, and understand occurrences and, in many cases, to challenge and extend existing knowledge, within the limits of the critical bounding assumptions. A theory consists of concepts, together with their definitions, and existing theory/theories that are used for this particular study.

2.1.1. Portfolio Theory

Since the 1980s, companies have successfully applied modern portfolio theory to market risk. Many companies are now using value at risk models to manage their interest rate and market risk exposures. Unfortunately, however, even though credit risk remains the largest risk facing most companies, the practice of applying modern portfolio theory to credit risk has lagged [9]. Companies recognize how credit concentrations can adversely impact financial performance. As a result, a number of institutions are actively pursuing quantitative approaches to credit risk measurement. These banks are also making significant progress toward developing tools that measure credit risk in a portfolio context. They are also using credit results to transfer risk efficiently while preserving customer relationships. Portfolio quality ratios and productivity indicators have been adapted [6]. The combination of these developments has vastly accelerated progress in managing credit risk in a portfolio context. The portfolio theory integrates the process of efficient collection formation to the pricing of individual assets. The theory also explains that some sources of risk associated with individual assets can be eliminated or diversified away, by holding a proper combination of assets [7].

The foundation of asset-by-asset approach is a sound way of credit review and internal credit risk rating system. This system enables management to identify changes in individual credits, or portfolio trends in a timely manner. Based on the changes identified, credit identification, credit review, and credit risk rating system management can make necessary modifications to portfolio strategies or increase the supervision of credits in a timely manner. While the asset-by-asset approach is a critical component to managing credit risk, it does not provide a complete view of portfolio credit risk, where the term risk refers to the possibility that actual losses exceed expected losses. Therefore, to gain greater insight into credit risk, companies increasingly look to complement the asset-by-asset approach with a quantitative portfolio review using a credit model [8].

In summary, portfolio theory helps to assess risk and return relationships for combinations of securities. While the expected return of a portfolio is the simple weighted average of the expected returns of its component securities, portfolio risk must also consider the link among the returns of individual securities. Since part of the price fluctuation of a security is unique, it does not relate to price fluctuations of other securities held. As a result of that it allows the investors to diversify, or eliminate a portion of each security risk.

2.1.2. Information Theory

Derban recommended that borrowers should be screened especially by banking institutions in form of credit assessment [10]. Collection of reliable information from prospective borrowers becomes critical in accomplishing effective showing as indicated by symmetric information theory. With effective and efficient sharing of information helps banking institutions in bringing possible ways of managing their credits risks. Qualitative and quantitative techniques are also use in assessing the borrowers although one major challenge of using qualitative models is their subjective nature.

However according to Derban et al., borrowers attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold [10]. This technique minimizes processing costs, reduces subjective judgments and possible biases. The rating systems will be important if it indicates changes in expected level of credit loan loss.

2.2. Conceptual Framework

Recent studies on credit risk management effect on performance of commercial banks have not been able to identify an understandable relationship between the two variables. The study show a link between credit risk management and profitability of banks. A strong link between capital adequacy ratio, management efficient, liquidity and return on assets was identified. Further a weak and negative relationship of credit risk with return on asset was established.

3. Research Methodology

This research focuses on the effects of credit risk management on the performance of financial institutions taking the Sierra Commercial Bank Makeni branch as a case study. This chapter comprises research approach, research design, target population, sample size, sampling technique, data collection, data analyzing instruments ethical consideration during the research process.

3.1. Research Design

The researcher used a descriptive research design of qualitative method. Descriptive research seeks to establish factors associated with certain occurrences, outcome of the research findings. The quantitative research method has to do with using survey questionnaire to generate numerical data in which the researcher used frequency tables and statistical package for the social science to analyze the collected data while qualitative method is based on theoretical way of collecting data like focus group discussion and face to face interview. This is deemed appropriate because the study look at the depth of credit risk management and its effect on the financial performance of the Sierra Leone commercial bank taking it Makeni Branch as a case study which will help the researcher in describing the state of the real current situation of the bank.

3.2. Study Area

The study was conducted at Sierra Leone Commercial

Bank (S L) Limited, Makeni Branch. Data was collected from participants who are employees of Sierra Leone Commercial Bank. The reason for the choice of this area wasbecause the researcher will get the required information needed to carried the research work. The researcher choose SLCB Makeni branch as a case study in order to know the issues surround it giving credits risks to customers and how these credit risks are being address by the bank. The research area is consider as one of the provincial headquarter town that provides financial banking services among Districts like Tonkolili District, Kabala District, Portloko District and so on. Northern Province has some Savings and Credit Groups with memberships coming from different areas.

3.3. Study Population

Target population can be defined as a complete set of individuals, cases/objects with some common observable characteristics of a particular nature distinct from other population. Target population is that population to which a researcher wants to generalize the results of the study [11]. The target population of the study considered 20 respondents as they fulfill all characteristics and legally accepted by the Sierra Leone commercial bank Makeni Branch.

3.4. Sample Size

Sample size refers to the number of units or people that are chosen from which the researcher wish to gather information or data [12]. The researcher used a sample size of 6 respondents. The sample size was chose as a result of the administered questionnaires received from respondents in order to achieve accuracy. The researcher used face to face interview to gathered data.

3.5. Purposive Sample Technique

The researcher uses a purposive sampling technique while carrying out the research work. Purposive sampling allows the researcher to gather qualitative responses, which leads to better insights and more precise research results. The researcher collects information from opinions and experience of participants; the results are relevant to the research context. The researcher uses this technique in order to focus on particular characteristics of a population that are of interest. The technique also enables the best research method to examine and discover the answers the researcher needs in the research questions and gather a lot of information out of the data that they have collected.

3.6. Data Collection

To collect the data from the field, the researcher used surveys questionnaires distributed to participants. The participants were given equal chance and opportunity to make their opinions in relation to the subject matter of the research findings. Face to face interview was the type widely accepted by the participants as a result of their stated principle in the institution that researchers who conduct any findings in their institution will allow to use such method.

3.7. Sources of Data Collection

The researcher used primary and secondary data in the research findings. Primary data are first hand data in which the researcher collected from the field by using face to face interview and questionnaires while secondary data are second hand data the research used to acquire information related to the findings like the use of text books, journals and newspapers which is used in the literature review sections. The data was collected most in the form of close ended questions with few open ended questions. Those questions that deserve "Yes" response from the questionnaire were used to conclude on the effect of credit risk management on the performance of financial institutions in Sierra Leone, while those with "closed ended" response were used to show the irrelevancy of the variables. The questionnaires were divided into (2) parts. Part A aims at gathering background information about the respondent. Part B aims at getting the responses about credit risk management systems and its management approaches of each of the Commercial Banks. In order the researcher to retrieve data from respondents questionnaires and face to face discussion were used.

3.8. Data Analysis

After data have been collected, the the data was analysed through statistical package for the social sciences and later presented into tables and figures with the help of frequencies and percentages. To ensure that the findings presented by the researcher are in a manner that is easy to understand by the readers and other upcoming researchers. Therefore, the "mode" was used as the analytical tool though expecting a 5% degree of error during the analysis. The researcher use SPSS statistics software has an important application in the dissertation work and researchers use it to perform statistical analysis of the research work. The researcher also uses it in order to import the dissertation data for analysis purpose, to generate charts, tabulated data and descriptive statistics as well.

3.9. Quality Control

The application of statistical methods specifically controls charts and acceptance sampling to quality control [13]. Questionnaires are well prepared in a standardize way that will help the researcher to get better use of statistical interpretations.

4. Findings and Data Analysis

4.1. Personal Information of Respondents

The researcher sought to look at the personal information of respondents include sex of respondents, educational level of respondents, management level of respondents, age brackets of respondents and working experience of respondents at Sierra Leone Commercial Bank, Makeni Branch.

Table 1. *Sex of Respondents.*

Respondents	Frequency	Percentages
Male	4	67%
Female	2	33%
Total	6	100%

Source: *Researcher,* 2023.

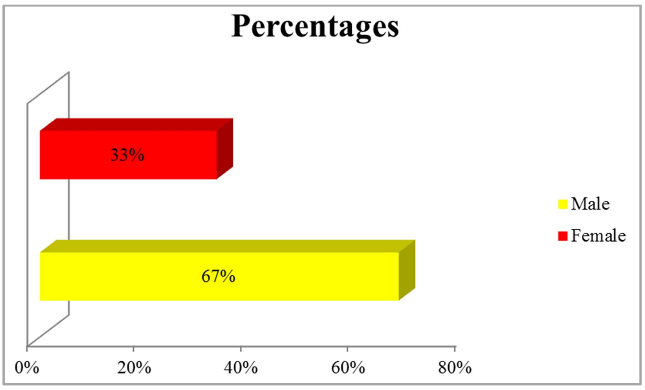

Figure 1. *Sex of Respondents.*

The research finds that (67%) of respondents were male while (33%) of respondents were male. This implies that the bank recruits more male staffs than female workers.

Table 2. *Educational level of respondents.*

Respondents	Frequency	Percentages
WASSCE	1	17%
Certificate	0	0%
Bachelor's Degree	2	33%
Master's Degree	3	50%
Total	6	100%

Source: *Researcher,* 2023

The research finds that (83%) of participants have acquired some form of tertiary education while only (17%) of respondents are below WASSCE level. This implies that majority of the staffs at Sierra Leone commercial bank, Makeni branch are literate.

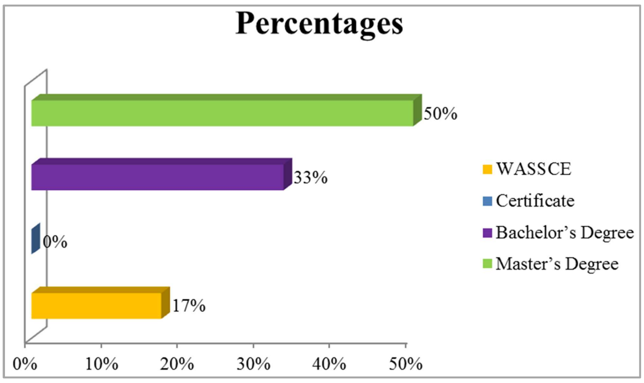

Figure 2. *Educational Level of Respondents.*

Table 3. *Management Level of Respondents.*

Respondents	Frequency	Percentages
Top level management	4	67%
Middle level management	1	17%
Low level management	1	17%
Total	6	100%

Source: *Researcher,* 2023.

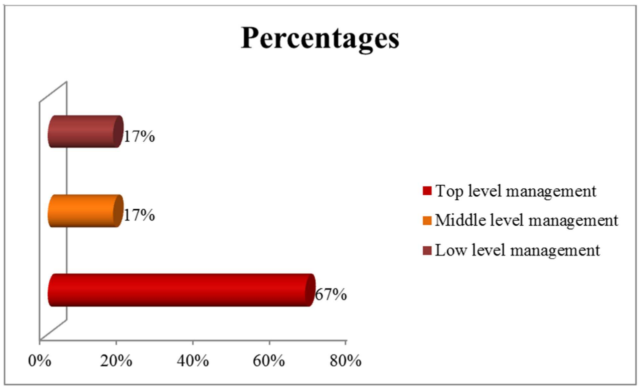

Figure 3. *Management Level of Respondents.*

The research finds that majority of the respondents are top management level and this is what we call policy making body in ensuring there is availability and full compliance of staffs in terms of operations of readily available to work at SLCB. The above analysis explains that, the management system of SLCB is based on hierarchy in which there is a well develop and define line of authority among employees. This also allow effective and efficient management of credit risk in order to enhance greater performance.

Table 4. *Age Brackets of Respondents.*

Respondents	Frequency	Percentages
Below 25 years	3	50%
30-10 years	1	17%
41-50 years	0	0%
Above 51 years	2	33%
Total	6	100%

Source: *Researcher,* 2023.

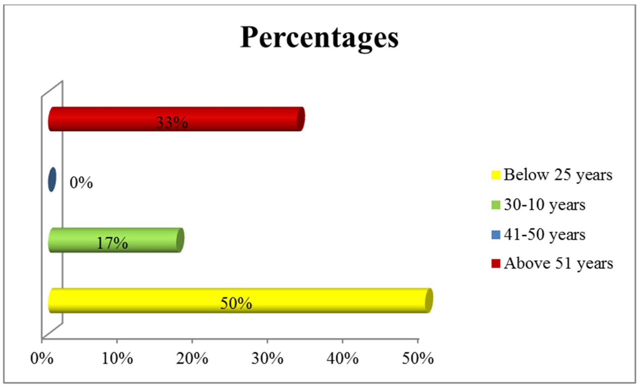

Figure 4. *Age Brackets of Respondents.*

From the table 4 and figure 4 show that (67%) of participants were able man power while only (33%) of respondents were aged people. This justifies that there are more young people who have the ability to handle the activities of the institution.

Table 5. *Working Experiences of Respondents.*

Respondents	Frequency	Percentages
Below 2 years	1	17%
2-5 years	1	17%
6-10 years	2	33%
Above 10 years	2	33%
Total	6	100%

Source: *Researcher,* 2023.

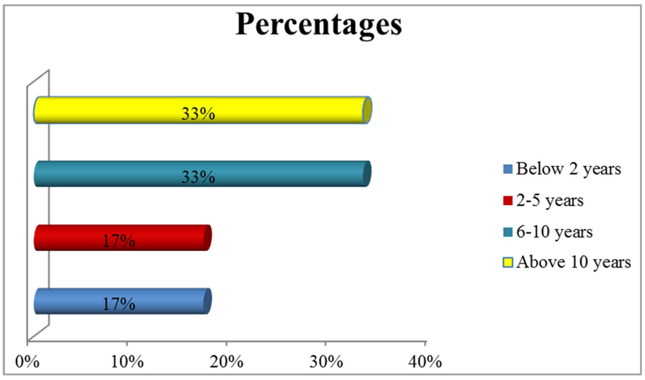

Figure 5. *Working Experiences of Respondents.*

The findings show that all of the respondents have minimum working experience of 1-10 years above. This justifies that staffs have been working for so many years and they know their work.

4.2. Factors Influencing Credit Performance

Table 6. *Factors Consider to Influencing Loan Performance.*

Respondents	Frequency	Percentages
Internal factors	4	67%
External factors	2	33%
Total	6	100%

Source: *Researcher,* 2023.

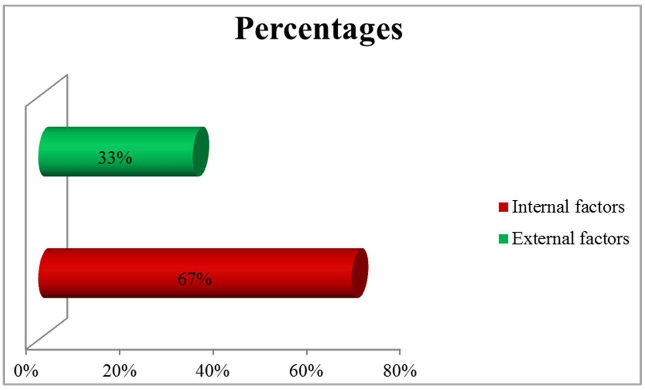

Figure 6. *Factors Consider to Influencing Loan Performance.*

The findings revealed that (67%) of respondents agreed that internal factors greatly influence loan performance while (33%) of participants agreed that external factors are those that influence the performance of Sierra Leone commercial Bank, Makeni Branch. This implies that the internal factors have more influence than the external factor in the institution.

Table 7. *The extent to which Internal Factors Influencing loan Performance in your Institution.*

Respondents	Frequency	Percentages
No extent	1	33%
Little extent	1	33%
Moderate extent	1	33%
Great extent	0	0%
Very great extent	0	0%
Total	3	100%

Source: *Researcher,* 2023

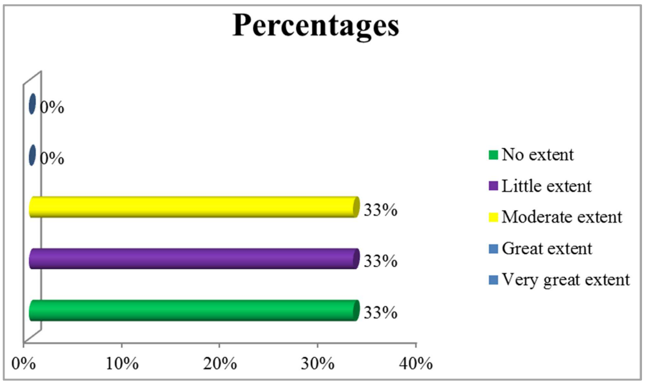

Figure 7. *The Extent to Which Internal Factors Influencing loan Performance in Your Institution.*

The research finds that out of six respondents who were interviewed, 3 respondents agreed that the internal factors influencing loan performance. In the research findings it is revealed that moderate extent constitutes (33%) of respondents, great extent constitutes (33%) of participants, no extent constitutes (33%) of respondents while very great extent and great extent constitute nil respectively. The research implies that the following internal factors like capital adequacy, credit risk, management efficiency, liquidity management and poor location of the institution have great impact in terms of influencing the daily activities of the institution. The institution has absolute control over such factors either in decision making process or any other action they may wish to take over in the institution.

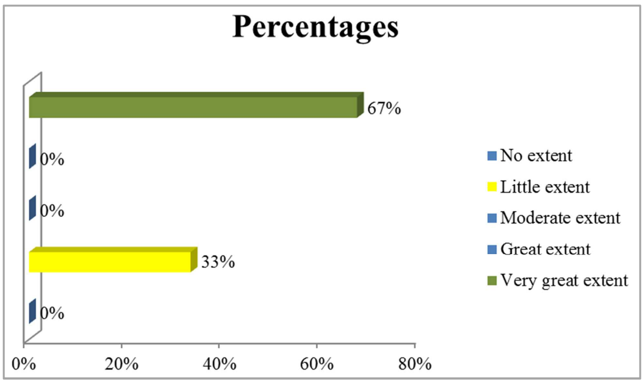

Figure 8. *The Extent to Which External Factors Influencing loan Performance in your Institution.*

Table 8. *The extent to Which External factors Influencing loan Performance in your Institution.*

Respondents	Frequency	Percentages
No extent	0	0%
Little extent	1	33%
Moderate extent	0	0%
Great extent	0	0%
Very great extent	2	67%
Total	3	100%

Source: *Researcher,* 2023.

From the table 8 and figure 8 show that very great extent constitutes (67%) of respondents, little extent constitutes (33%) of participants while great extent, moderate extent and no extent constitute nil respectively. The research justifies that the following external factors like inflation rate, interest rate, loan size, loan policies and savings rate that affects the operation of the institution. The reason being external factors are those factors which the institution has little or no control over of in terms of it operational activities.

Table 9. *Management Efficiency Factors that Determined the Institution Profitability.*

Respondents	Frequency	Percentages
Organizational discipline	2	33%
Control system	2	33%
Income minimization	1	17%
Reducing operation costs	1	17%
Total	6	100%

Source: *Researcher,* 2023.

The findings revealed that operational discipline constitutes (33%) of respondents, control system constitutes (33%) of participants while reducing operation costs and income minimization constitute (17%) of respondents each. This implies that in order to have excellent operations in the institution, it strongly determined by the management efficiency of the institution.

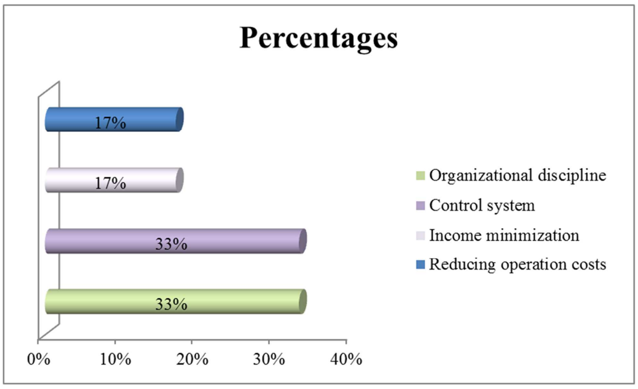

Figure 9. *Management Efficiency Factors that Determined the Institution Profitability.*

4.3. Effects of Credit Risk Management on the Performance of an Institution

The research findings that reducing operation costs, causes of economic down turn constitute (33%) of respondents each while it affect changes in interest rate and it reduces profit and loss account constitute (17%) of participants of each.

Table 10. *Effects of Credit Risk Management on the Performance of an Institution.*

Respondents	Frequency	Percentages
Causes of economic turndown	2	33%
Affects changes in interest rate	2	33%
It affect commodity prices	1	17%
It reduces profit and loss account	1	17%
Reducing operation costs	0	0%
Total	6	100%

Source: *Researcher,* 2023.

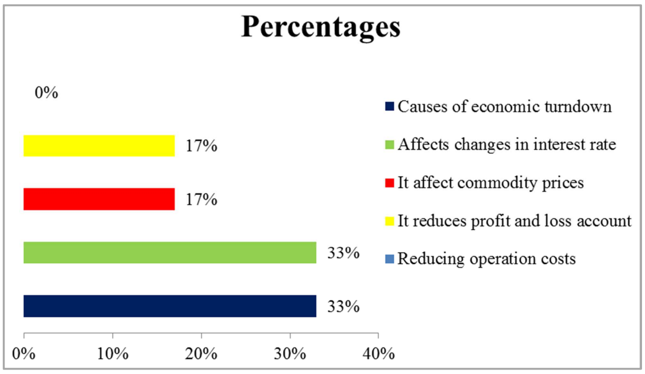

Figure 10. *Effects of Credit Risk Management on the Performance of an Institution.*

Table 11. *Practices Cause Credit Risk Management in your Institution.*

Respondents	Frequency	Percentages
Due to credit issuing process	4	67%
Subjective decision making	1	17%
Inadequate monitoring	1	17%
Credit concentration	0	0%
Incomplete credit assessment	0	0%
Total	6	100%

Source: *Researcher,* 2023

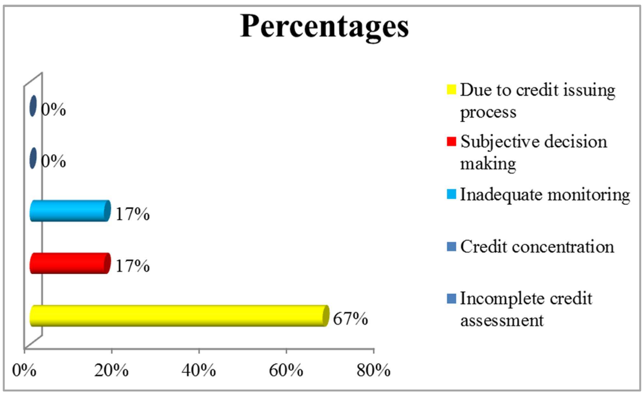

Figure 11. *Practices cause Credit Risk Management in your Institution.*

Based from the research findings, due to credit issuing process constitute (67%) of respondents, credit concentration and inadequate monitoring constitute (17%) of participants of each. This implies that the above mentioned practices cause credit risk in the performance of Sierra Leone Commercial Bank, Makeni Branch.

Table 12. *Are there Strategies the Bank uses to Reduce the Effects of Credit Risk.*

Respondents	Frequency	Percentages
Yes	6	100%
No	0	0%
Total	6	100%

Source: *Researcher,* 2023

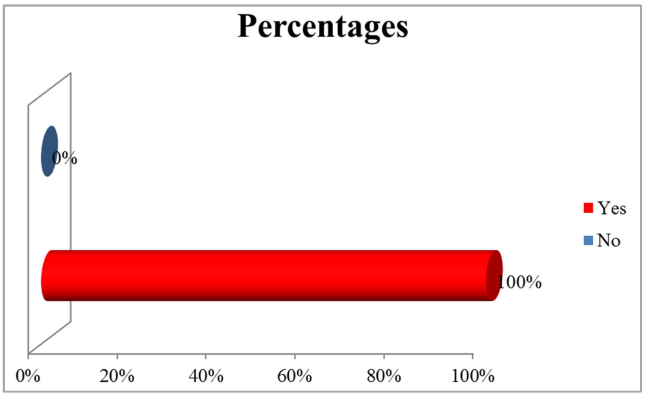

Figure 12. *Are there Strategies the Bank uses to Reduce the Effects of Credit Risk.*

The research finds that (100%) of respondents agreed that Sierra Leone Commercial Bank, Makeni Branch uses strategies in order to reduce the effects of credit.

Table 13. *The Extent to which the Bank uses Risk Strategies in Order to Reduce Credit Risk.*

Respondents	Frequency	Percentages
No extent	2	33%
Little extent	1	17%
Moderate extent	3	50%
Great extent	0	0%
Very great extent	0	0%
Total	6	100%

Source: *Researcher,* 2023.

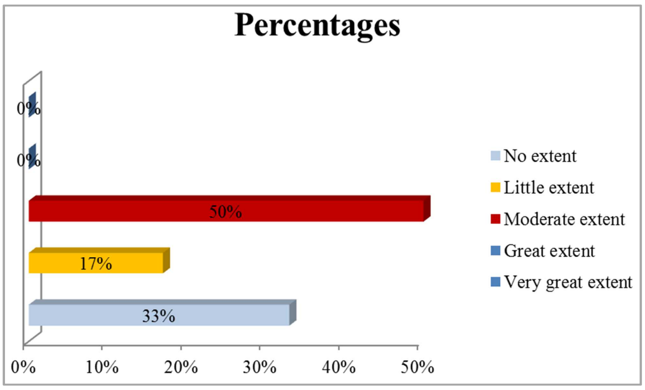

Figure 13. *The Extent to Which the bank uses Risk Strategies in Order to Reduce Credit Risk.*

The findings revealed that, moderate extent constitutes (50%) of participants, no extent constitutes (33%) of respondents, little extent constitutes (17%) of participants while great extent and very great extent constitute nil. This implies that in order the bank to help reduce or minimize the effects of credit, there is need to such risk strategies like reduction in interest rate, counterparties from individuals to independent governments, reduction in the number of creditors and provision of several services to customers.

4.4. Ways of Managing Credit Risk Management on the Performance of an Institution

Table 14. *Are there any ways your bank uses to manage credit risk in order to increase performance.*

Respondents	Frequency	Percentages
Yes	6	100%
No	0	0%
Total	6	100%

Source: *Researcher,* 2023

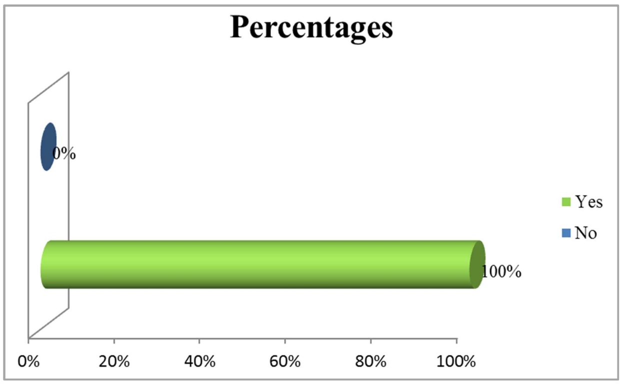

Figure 14. *Are There Any Ways Your Bank Uses to Manage Credit Risk in Order to Increase Performance.*

The research finds that all the respondents agreed that there are many ways the bank used to manage credit risk in order to increase performance.

Table 15. *The Extent to Which the Ways Bank Uses in Managing Credit Risk.*

Respondents	Frequency	Percentages
No extent	0	0%
Little extent	0	0%
Moderate extent	1	17%
Great extent	3	50%
Very great extent	2	33%
Total	6	100%

Source: *Researcher,* 2023.

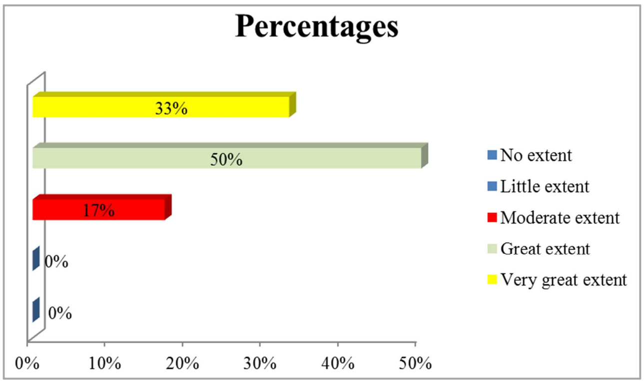

Figure 15. *The Extent to Which the Ways Bank Uses in Managing Credit Risk.*

From the findings it shown that great extent constitutes (50%) of participants, very great extent constitutes (33%) of respondents while moderate extent constitutes (17%) of respondents. This implies that the bank uses the following ways like risk identification, risk monitoring, credit approval, efficient information system and operation under a sound credit granting process in order to manage their credit risks more effectively and efficiently.

Table 16. *Are There Any Strategies your Institution uses in Order to know the Level of Tolerance and the Level of Profitability.*

Respondents	Frequency	Percentages
Yes	6	100%
No	0	0%
Total	6	100%

Source: *Researcher,* 2023

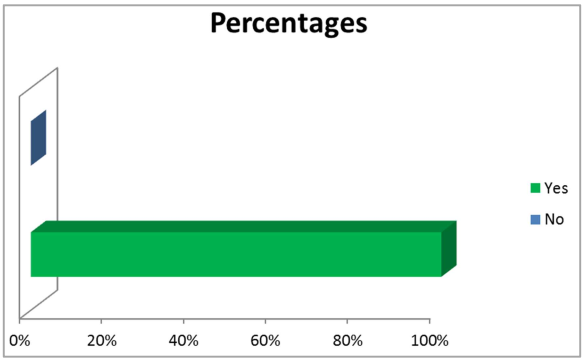

Figure 16. *Are there any strategies your institution uses in order to know the level of tolerance and the level of Profitability.*

The research finds that all of the respondents agreed that there are strategies their institution uses in order to know the level of tolerance and the level of profitability.

Table 17. *The extent to which these strategies help the institution to know the level of tolerance and the level of profitability.*

Respondents	Frequency	Percentages
No extent	0	0%
Little extent	0	0%
Moderate extent	3	50%
Great extent	2	33%
Very great extent	1	17%
Total	6	100%

Source: *Researcher,* 2023

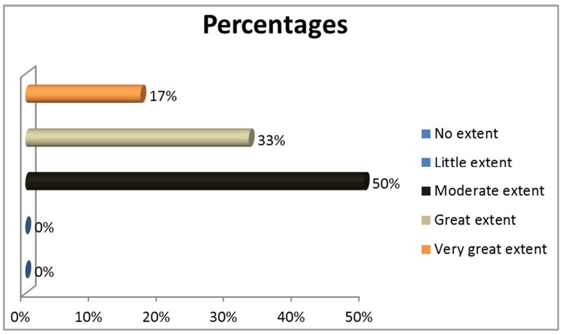

Figure 17. *The extent to which These Strategies Help the Institution to Know the Level of Tolerance and the Level of Profitability.*

The findings show that moderate extend constitutes (50%) of respondents, great extent constitutes (33%) of participants while very great extent constitutes (17%) of respondents. The justifies that the following like inspection by bank manager, financial statement analysis, review requirements and documentation, trying to know the root cause of problems and analyze review serve as methods that help Sierra Leone Commercial Bank, Makeni Branch to know the level of tolerance and the level of profitability.

Table 18. *Following Measurements of Credit risk is Key Account in your Institution.*

Respondents	Frequency	Percentages
The specific nature of credit	2	33%
The exposure of profile until maturity	1	17%
The existence of collateral	1	17%
Default base on internal risk rating	2	33%
Total	6	100%

Source: *Researcher,* 2023.

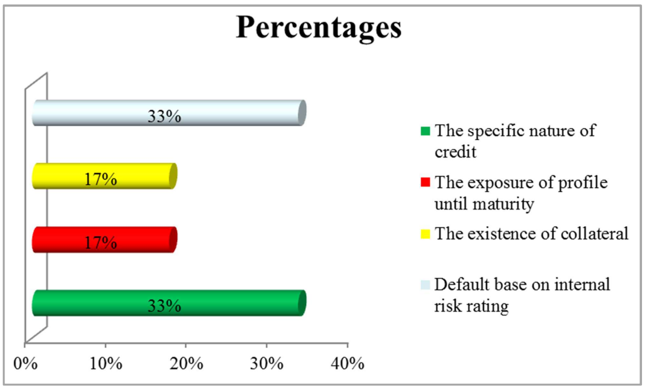

Figure 18. *Following Measurements of Credit Risk Is Key Account in your Institution.*

The findings show that the use of default based on internal risk rating and the use of specific nature of credit constitute (33%) of respondents each while exposure of profile until maturity and the existence of collateral constitute (17%) of participants respectively. This implies that the following measurements serve as key account in terms of credit risk at Sierra Leone Commercial Bank, Makeni Branch.

5. Summary, Conclusion, and Recommendations

5.1. Conclusion

The findings conclude that banks, giving large size of credit, internal and external factors are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank. Banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions. In order to minimize or reduce such credit risks, there is need to investigate whether this investment in credit risk management is viable to the banks. The implementation of effective and efficient credit risks strategies like risk avoidance, risk mitigation and risk control will help to overcome those risks which in turns lead to high performance of the bank.

5.2. Recommendations

The study has recommended the following:

1. The Sierra Leone commercial bank Makeni branch should establish a department of risk management that will enable them to minimize or control their credit risks.
2. The Sierra Leone commercial bank Makeni branch should make diversification in the credit facilities in order to reduce the credit risk.
3. The commercial banks should have a fence against insurance with insurance companies that will help them to insure the institution in case of any accident that may happen for discoveries of institutional assets.
4. The Bank should also focus in checking their credit policy and practices. By this they would reduce loss on non- performing loans which raises their expenses and consequent reduction in financial performance.
5. Bank needs to establish Credit Policies ("Lending Guidelines") that clearly outline the senior management's view of business development priorities and the terms and conditions that should be adhered to in order for loans to be approved.
6. Bank should also ensure that credit lending guidelines should be updated at least annually to reflect changes in the economic outlook and the evolution of the bank's loan portfolio, and be distributed to all lending/marketing officers.
7. The Lending Guidelines should be approved by the Managing Director/CEO & Board of Directors of the bank based on the endorsement of the bank's Head of Credit Risk Management and the Head of Corporate/Commercial Banking.
8. The study also recommends that Sierra Leone commercial bank should also try to keep their operational cost low as this contradicts their profits margin thus leading to low financial performance.
9. The Bank should also establish Know Your Customer (KYC) and Money Laundering guidelines to help them avoid the problem of being partnering with wrong creditors.
10. Bank management should provide training and seminars to staffs to improve their skills and business knowledge in terms of risk identification and assessment before disbursement of credit to creditors that will help improve financial performance.

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