

**CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF  
COMMERCIAL BANKS IN UGANDA: A CASE STUDY OF ABSA BANK,  
MUKONO DISTRICT**

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT  
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**UGANDA CHRISTIAN  
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## Declaration

I, **Opio Joreem Allan**, declared that this dissertation, entitled “Credit Risk Management and Financial Performance of Commercial Banks in Uganda: A Case Study of ABSA Bank, Mukono District,” was my original work and had not been submitted for any award at any other institution.

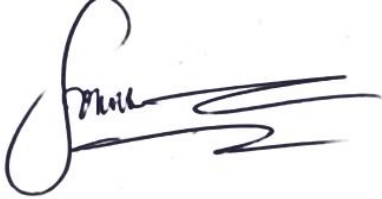


Signed: .....

Date: ... 04/09/2025

## Approval

This certified that this dissertation was carried out under my supervision and was approved for submission to the Faculty of Business and Administration, Uganda Christian University.

A handwritten signature in black ink, appearing to read 'Kasozi Geoffrey', with several horizontal strokes extending to the right.

Signature: **Kasozi Geoffrey**

Supervisor's Name: **Mr. Kasozi Geoffrey**

Date: **4<sup>th</sup> September, 2025**

## **Dedication**

This work was dedicated to my family, friends, and mentors, whose unwavering support, encouragement, and prayers sustained me throughout my academic journey.

## **Acknowledgement**

I expressed profound gratitude to the Almighty God for granting me the strength, wisdom, and resilience to finish this dissertation. I extended heartfelt appreciation to my supervisor, Mr. Kassozi Geoffrey for his insightful guidance, constructive feedback both online and offline and intense encouragement. I also thanked my classmates, colleagues like Bantu ,and the staff of Absa Bank, Mukono District whose participation and cooperation was instrumental in this Study.

## LIST OF ABBREVIATIONS AND ACRONYMS

### Abbreviation/Acronym Full Form

|                |   |
|----------------|---|
| A              | Agree                                       |
| ABSA           | Amalgamated Banks of South Africa           |
| B              | Unstandardized Coefficient                  |
| Beta           | Standardized Coefficient                    |
| D              | Disagree                                    |
| df             | Degrees of Freedom                          |
| F              | F-Statistic                                 |
| N              | Neutral                                     |
| N              | Sample Size                                 |
| NIM            | Net Interest Margin                         |
| NPL            | Non-Performing Loan                         |
| r              | Pearson's Correlation Coefficient           |
| R              | Multiple Correlation Coefficient            |
| R <sup>2</sup> | R Square                                    |
| ROA            | Return on Assets                            |
| ROE            | Return on Equity                            |
| SA             | Strongly Agree                              |
| SD             | Strongly Disagree                           |
| Sig.           | Significance                                |
| SME            | Small and Medium Enterprise                 |
| SPSS           | Statistical Package for the Social Sciences |
| Std. Error     | Standard Error                              |
| t              | t-Statistic                                 |
| UCU            | Uganda Christian University                 |
| UGX            | Ugandan Shilling                            |

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## **Abstract**

This study investigated the effect of credit risk management on the financial performance of commercial banks in Uganda, focusing on ABSA Bank, Mukono District. The banking sector played a vital role in economic growth of a country like Uganda, but rising non-performing loans (NPLs) due to weak risk management practices hence leading to significant challenges, as evidenced by historical bank failures for example Crane Bank in 2016. The main objective was to examine how credit policies, credit appraisal, and credit monitoring influenced financial performance, measured by Return on Assets (ROA) and Return on Equity (ROE). A quantitative cross-sectional design was utilized, with data collected from 22 employees using structured questionnaires. Findings revealed strong positive correlations between credit policies, credit appraisal, credit monitoring, and financial performance. Multiple regression analysis confirmed a significant combined effect, with credit policies exerting the greatest influence. The study recommended strengthening credit policies through regular updates, enhancing staff training for improved appraisal and monitoring, and ensuring independent monitoring systems to boost profitability and financial stability. Further research was suggested to explore the integration of digital technologies, such as artificial intelligence, in credit risk management to enhance efficiency and accuracy.

# **CHAPTER ONE: INTRODUCTION**

## **1.0 Introduction**

This Study examined the effect of credit risk management on the financial performance of commercial banks in Uganda, with a specific focus on Absa Bank in mukono District. This chapter presented a comprehensive overview, including the background, problem statement, purpose of the Study, objectives, research questions, scope, significance and conceptual framework. The banking sector was a cornerstone of Uganda's economy, facilitating financial intermediation by channelling deposits into productive investments. However, credit risk arising from borrower defaults posed a significant threat to the profitability and solvency when not effectively managed (Serwadda, 2018). Uganda's banking environment, characterized by volatile interest rates, inflation, stringent regulations and necessitated robust credit risk management practices in order to insure financial stability and sustainable growth (Mugume, 2020).

## **1.1 Background of the Study**

The background was structured across global, African, Ugandan and Absa bank specific contexts to provide a holistic understanding of the Study's importance.

**Historical background:** Globally, commercial banks played a pivotal role in economic development by mobilizing savings and providing credit for investments. However, the 2007-2008 global financial crisis exposed the vulnerabilities of weak credit risk management. As subprime lending and inadequate risk assessment led widespread bank failures (Hull, 2018). This crisis prompted the adoption of international standards like Basel 2 and 3, which emphasized stronger capital reserves, risk-based pricing, and enhanced credit monitoring to mitigate defaults and ensure resilience (Basel Committee, 2020). For example, banks in the United States implemented stricter loan underwriting standards post-crisis, reducing NPL ratios from 5% in 2009 to 1.5% by 2015 (World Bank, 2020).

**African context:** In Africa, commercial banks operated in volatile economic environments marked by high default rates, limited financial infrastructure, and regulatory challenges. The African Development Bank in 2022 reported that African banks faced NPL ratios averaging 7% in 2020, compared to a global average of 3%. To address this, banks adopted risk-based pricing, collateral requirements, and automated credit scoring systems. For instance, Nigerian banks implemented portfolio diversification strategies, reducing NPLs by 2% between 2018

and 2022 (Ogboi & Unuafe, 2013). However, information asymmetry and weak legal frameworks for loan recovery continued to hinder effective risk management across the continent.

**Ugandan Context:** In Uganda, the banking sector experienced significant growth, with total assets increasing from UGX 45.44 trillion in December 2022 to UGX 48.3 trillion in June 2023, driven by improved capitalization and financial inclusion initiatives (Bank of Uganda, 2023). The sector comprised 25 licensed commercial banks by 2022, serving diverse clients, including small and medium enterprises (SMEs) and retail borrowers. However, challenges such as high NPL ratios (5.6% in 2022), inadequate collateral management, and weak contract enforcement persisted, undermining financial performance (Mugume, 2020). The collapse of Crane Bank in 2016, due to poor credit risk management and governance issues, underscored the need for robust risk frameworks (Serwadda, 2018).

**ABSA Bank Context:** ABSA Bank Uganda, formerly Barclays Bank, was a leading commercial bank with total assets of UGX 4.5 trillion in 2023, regulated by the Bank of Uganda. It served high-net-worth individuals, SMEs, and public sector across its network. The Mukono branch located in the semi-urban area catered to SMEs and small scale borrowers, many of whom lacked formal financial records, collateral and increased default risks. The branch faced challenges such as substandard loan underwriting, collateral fraud and rising NPLs which impacted profitability and necessitated stronger risk management practices ( Absa annual report, 2023). This Study aimed to evaluate how credit policies, credit appraisal and credit monitoring influenced the branch's financial performance, contributing to improved risk strategies.

## **1.2 Problem Statement**

Despite the growth of Uganda's banking sector, commercial banks faced continuous challenges in managing credit risk, leading to NPLs, irregular loan repayments and defaults. These issues threatened financial stability and profitability, as evidenced by the collapse of Crane Bank in 2016. Attributed to weak credit assessment and monitoring (Serwadda, 2018; Tumwine, 2021). At Absa Bank's Mukono Branch, challenges included suboptimal loan portfolio quality, inadequate borrowing screening, increasing collateral fraud, which reduced profitability, increased loan loss provisions and constrained liquidity. Forinstance the bank's NPL ratio rose from 4.2% in 2020 to 5.8% in 2022, above the Bank of Uganda's recommended 3% threshold (Absa Bank Annual Report, 2022). While Absa implemented strategies like loan restructuring,

risk profiling, and recovery policies. Their effectiveness at the branch level remained unclear due to limited localized empirical evidence. This Study addressed this gap by examining the impact of credit risk management on the financial performance of Absa Bank, Mukono District hence providing insights to enhance risk control and profitability. Thereby filling the gap in the literature and providing practical insights into how credit risk management can be optimized to derive commercial banks growth and economic development.

### **1.3 Purpose of the Study**

The study aimed to examine the effect of credit risk management on the financial performance of commercial banks in Uganda while mainly focusing on Absa Bank, Mukono District to inform top strategies for improving profitability stability.

### **1.4 Objectives of the Study**

- i) To assess how credit policies influenced the financial performance of commercial banks in Uganda, focusing on their role in reducing NPLs and enhancing ROA and ROE.
- ii) To determine the effect of credit appraisal on the financial performance of commercial banks in Uganda, examining how borrower assessment minimized default risks.
- iii) To examine the impact of credit monitoring on the financial performance of commercial banks in Uganda, analyzing its role in ensuring loan repayment and financial stability.

### **1.5 Research Questions**

- i) To what extent did credit policies affect the financial performance of commercial banks in Uganda in terms of profitability and loan portfolio quality?
- ii) What was the effect of credit appraisal on the financial performance of commercial banks in Uganda, particularly in reducing default risks?
- iii) How did credit monitoring influence the financial performance of commercial banks in Uganda, especially in maintaining low NPLs and stable financial indicators?

### **1.6 Scope of the Study**

#### **1.6.1 Subject Scope**

The study focused on credit risk management, encompassing credit policies, credit appraisal, and credit monitoring, and their impact on financial performance, measured by ROA and ROE. Credit policies included guidelines for loan approval and risk assessment, appraisal involved evaluating borrower creditworthiness, and monitoring covered post-disbursement loan

tracking. The study examined how these practices minimized default risks and enhanced profitability, addressing gaps in localized banking practices.

### **1.6.2 Geographic Scope**

The research was conducted at ABSA Bank's Mukono Branch, located in Mukono District, a semi-urban area with a vibrant SME sector. This branch was selected because of its strategic role in serving small-scale businesses which often presented higher credit risk due to Limited collateral and financial documentation, making it an ideal case for studying risk management's impact.

### **1.6.3 Time Scope**

The Study covered the period from 2019 to 2023, capturing pre-pandemic stability (2019), pandemic-related disruptions (2020-2021), and post-pandemic recovery (2022-2023). This Timeframe allowed analysis of credit risk management's effectiveness across varying economic conditions including interest rate fluctuations and regulatory changes.

## **1.7 Importance of the Study**

The Study

The study provided multiple benefits across stakeholders:

**Policymakers:** Findings informed the Bank of Uganda and other regulators in refining credit risk policies to enhance sector stability. For example, recommendations could guide updates to Basel III compliance requirements for Ugandan banks (Mugume, 2020).

**Banking Practitioners:** Results offered ABSA managers and credit officers actionable insights to strengthen loan screening, monitoring, and recovery processes, improving ROA and ROE.

**Academia and Researchers:** The study contributed empirical evidence to the limited literature on branch-level risk management in Uganda, serving as a reference for future studies.

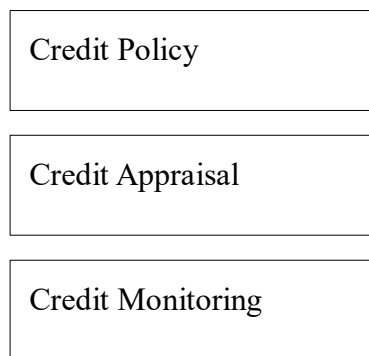
**Investors and Shareholders:** Insights into risk management's impact on profitability aided investment decisions, highlighting ABSA's financial health relative to competitors.

## 1.8 Conceptual Framework

The conceptual framework illustrated the relationship between credit risk management (independent variable) and financial performance (dependent variable), adapted from Opio (2024):

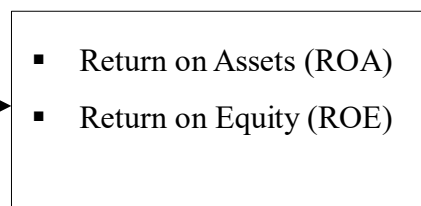
### Independent variable

Credit Risk Management



### Dependent variable

Financial Performance



Source: Adapted from Opio (2024) and modified by the researcher.

The framework hypothesized that effective credit policies, thorough appraisal, and robust monitoring reduced NPLs and enhanced ROA and ROE by ensuring loan quality and repayment.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.0 Introduction**

This chapter reviewed existing literature on credit risk management and its impact on financial performance, focusing on commercial banks in Uganda. It defined key terms, discussed theoretical frameworks, analysed empirical studies, and identified research gaps to contextualize the study in Absa Bank mukono.

### **2.1 Definition of Key Terms**

#### **2.1.1 Credit**

Credit was defined as a financial arrangement where a lender provided funds to a borrower with the expectation of repayment, typically with interest. Cole (2018) described credit as purchasing power created by financial institutions especially banks to facilitate economic transactions. Gide (2017) emphasized its contractual nature, involving trust and structured repayment terms. For example, ABSA Bank offered SME loans with repayment schedules tied to business cash flows, illustrating credit's role in economic growth (ABSA Annual Report, 2023).

#### **2.1.2 Synthesis**

Credit was a catalyst for economic development, enabling businesses and individuals to access capital for investment and consumption. However, it carried out inherent risks of default, necessitating robust risk management to balance profitability and exposure. For instance, poorly managed or uncontrolled credit led to high NPLs in Ugandan banks, averaging 5.6% in 2022 (Bank of Uganda, 2023), highlighting the need for effective policies.

#### **2.1.3 Credit Risk**

Credit risk was the potential financial loss resulting from a borrower's failure to meet debt obligations in time. Hull (2018) defined it as the risk of default on loans or derivatives, while the Basel Committee (2020) emphasized borrower incapacity or unwillingness to repay. Johnson (2022) noted that credit risk directly impacted bank profitability, as seen in ABSA Mukono's rising NPLs from 4.2% in 2020 to 5.8% in 2022 due to weak borrower assessments.

#### **2.1.4 Credit Risk Management**

Credit risk management involved identifying, assessing, and mitigating risks associated with lending funds. Smith (2023) described it as a systematic process integrating risk evaluation, collateral requirements, and monitoring. The Bank of Uganda (2019) mandated practices like portfolio diversification, credit scoring, and stress testing to ensure compliance. For example, ABSA implemented risk-based pricing models, adjusting interest rates based on borrower risk profiles, which reduced default rates by 1.5% in 2021 (ABSA Annual Report, 2021).

#### **2.1.5 Financial Performance**

Financial performance measured a bank's ability to achieve financial objectives, using indicators like ROA, ROE, and Net Interest Margin (NIM). Serwadda (2018) highlighted ROE as a key metric for shareholder value, while Opio (2024) emphasized ROA for asset efficiency. ABSA's ROA averaged 1.2% and ROE 16% in 2022, reflecting strong performance despite credit risk challenges (ABSA Annual Report, 2022).

#### **2.1.6 Credit Evaluation**

Credit evaluation, or appraisal, assessed borrower creditworthiness through income verification, collateral valuation, and credit history analysis. Mugume (2020) noted that effective evaluation reduced default risks by ensuring loans were granted to reliable borrowers. For instance, ABSA Mukono's appraisal process included credit bureau checks, which identified high-risk borrowers, though gaps in collateral valuation led to occasional losses.

### **2.2 Theoretical Review**

#### **2.2.1 Credit Risk Theory**

The theoretical framework provides the foundation for understanding the relationship between credit risk management and the financial performance of commercial banks.

For this study, credit risk theory, developed by Merton (1974) and adapted by Hull (2018), explained loan defaults as a function of borrower financial distress and market conditions. It advocated risk-based pricing, where higher-risk borrowers faced higher interest rates, and collateral requirements to mitigate losses. Serwadda (2018) applied this theory to Uganda, noting that banks with robust pricing models reduced NPLs by 2% annually. ABSA Mukono's use of risk-based pricing aligned with this theory, though inconsistent application increased default risks in 2022.

### **2.2.2 Agency Theory**

Agency theory, proposed by Jensen and Meckling (1976), addressed conflicts between principals (lenders) and agents (borrowers), where borrowers might act in self-interest, leading to moral hazard or adverse selection. Tumwine (2021) suggested performance-linked repayment plans and continuous monitoring to align interests. ABSA's Mukono Branch implemented quarterly loan reviews to detect early defaults, aligning with agency theory, but faced challenges due to limited staff training.

### **2.3 Uganda's Credit Policies and Financial Performance**

Credit policies in Uganda, guided by the Bank of Uganda and Basel III, required banks to maintain clear loan approval guidelines, risk assessment protocols, and capital adequacy ratios. Nantume (2022) found that strict policies reduced NPLs by 1.8% in Ugandan banks from 2019 to 2022, enhancing ROA. However, Opio (2024) noted that overly restrictive policies limited SME credit access, reducing lending volumes and interest income. At ABSA Mukono, policies mandated collateral for all SME loans, but delays in policy updates led to a 0.5% rise in NPLs in 2022, highlighting the need for dynamic frameworks.

### **2.4 Credit Risk Management and Financial Health**

Effective risk management was critical for financial health, as poor assessments increased liquidity risks and NPLs. Serwadda (2018) found that banks with weak risk management had ROA below 0.8%, compared to 1.5% for those with robust systems. Smith (2023) highlighted portfolio diversification and AI-driven analytics as best practices, with Kenyan banks reducing NPLs by 3% using such tools. ABSA Mukono maintained loan loss reserves at 5% of total loans in 2022, cushioning against defaults but increasing operational costs, underscoring the need for efficient risk strategies.

### **2.5 Credit Analysis and Financial Performance**

Credit analysis, through thorough appraisal, reduced NPLs and boosted ROE by ensuring loan quality. Mugume (2020) found that banks with standardized appraisal processes achieved ROE above 18%. ABSA Mukono's appraisal included income verification and collateral checks, but gaps in staff expertise led to occasional misjudgments, contributing to a 5.8% NPL ratio in 2022. Basel III compliance enhanced resilience, with ABSA's capital adequacy ratio at 14% in 2023, above the 10% minimum (Bank of Uganda, 2023).

## 2.6 Measures of Financial Performance

Financial performance was assessed using key indicators, as shown below:

| Indicator | Formula   | Interpretation  |
|-----------|---|---|
| ROA       | Net Income / Total Assets                             | >1% indicated efficient asset utilization; ABSA Mukono's ROA was 1.2% in 2022 (Opio, 2024).         |
| ROE       | Net Income / Shareholders' Equity                     | 15–20% reflected strong profitability; ABSA's ROE was 16% in 2022 (Serwadda, 2018).                 |
| NIM       | (Interest Income – Interest Expense) / Earning Assets | >3% suggested sustainable income; ABSA's NIM was 3.5% in 2022 (Nantume, 2022).                      |
| NPL Ratio | Non-Performing Loans / Total Loans                    | <3% indicated a healthy portfolio; ABSA Mukono's NPL ratio was 5.8% in 2022 (Bank of Uganda, 2023). |

Table 1 Measures of Financial performance

High ROE with low ROA suggested leverage risks, while technology-driven banks showed higher ROA due to efficient risk management (Mugume, 2020).

## 2.7 Overview and Research Gap

Literature confirmed that effective credit risk management improved profitability and stability, with studies like Kithinji (2010) and Kolapo et al. (2012) showing reduced NPLs and higher ROE in banks with robust systems. However, most studies focused on national or regional banking sectors, with limited research on branch-level dynamics, particularly in semi-urban settings like Mukono. This study filled this gap by examining how credit risk management practices impacted ABSA Mukono's financial performance, providing localized insights for practitioners and policymakers.

## **CHAPTER THREE: METHODOLOGY**

### **3.0 Introduction**

This chapter outlined the methodology employed to investigate the effect of credit risk management on financial performance at ABSA Bank, Mukono Branch. It covered the research design, study population, sample size, sampling technique, data sources, collection methods, analysis techniques, and ethical considerations.

### **3.1 Research Design**

A quantitative cross-sectional design was adopted to collect data at a single point in time, enabling analysis of relationships between credit risk management and financial performance. This design was suitable for capturing staff experiences and operational processes at ABSA Mukono, as supported by Bryman and Bell (2019). The quantitative approach facilitated statistical analysis of correlations and regression, ensuring objective findings.

### **3.2 Study Population**

The study population comprised 24 employees from the Loans, Finance, and Accounts departments at ABSA Mukono Branch. These departments were selected because their roles directly involved credit risk management, loan processing, and financial reporting, ensuring relevant insights (Cooper & Schindler, 2019). The population included loan officers, financial analysts, and accountants, representing the branch's core operational staff.

### **3.3 Sample Size and Sampling Technique**

The sample size was determined using Yamane's (1967) formula:  
$$n = N / (1 + N(e^2)),$$

Where  $N = 24$ (population) and

$e = 0.05$ (margin of error).

$n = 24 / (1 + 24(0.05^2)) \approx 22$  respondents.

Simple random sampling was employed to ensure each employee had an equal chance of selection, minimizing bias and enhancing representativeness (Saunders et al., 2019). A list of employees was obtained, and random numbers were used to select the sample.

### **3.4 Data Sources**

#### **3.4.1 Primary Data**

Primary data was collected through structured questionnaires administered to the 22 respondents. Questionnaires included demographic questions and Likert-scale items to assess perceptions of credit policies, appraisal, monitoring, and financial performance. This method ensured real-time, context-specific data, as recommended by Bryman and Bell (2019). For example, questions probed the effectiveness of credit policies in reducing NPLs.

#### **3.4.2 Secondary Data**

Secondary data was sourced from ABSA Bank's annual reports (2019–2023), Bank of Uganda publications, and peer-reviewed journals accessed via UCU's institutional repository (<http://ucu.sempertool.dk/>). These sources provided financial performance metrics (e.g., ROA, ROE) and contextual data on Uganda's banking sector, enhancing the study's robustness (Cooper & Schindler, 2019).

### **3.5 Data Collection Methods and Instruments**

Self-administered questionnaires were the primary data collection tool, designed with three sections: (a) demographic information (gender, age, department, and experience), (b) Likert-scale questions on credit risk management (policies, appraisal, monitoring), and (c) financial performance metrics. The Likert scale ranged from 5 (Strongly Agree) to 1 (Strongly Disagree), ensuring standardized responses. Questionnaires were pre-tested with five non-sample staff to ensure clarity and reliability, with minor revisions made to ambiguous items.

### **3.6 Data Analysis Techniques**

Data was coded, cleaned, and entered into SPSS (Version 26) for analysis. Descriptive statistics, including frequencies and percentages, summarized demographic characteristics and responses to Likert-scale questions. Inferential statistics included Pearson's correlation to assess relationships between credit risk management components and financial performance, and multiple linear regressions to evaluate their combined effect. The regression model was:

$$\text{Financial Performance} = \beta_0 + \beta_1(\text{Credit Policies}) + \beta_2(\text{Credit Appraisal}) + \beta_3(\text{Credit Monitoring}) + \varepsilon.$$

Results were presented in tables with full borders, mimicking SPSS output for clarity (Hyndman, 2018).

### **3.7 Ethical Considerations**

The study adhered to UCU's Research Ethics Policy (2023). Ethical approval was obtained from the UCU Research Ethics Committee before data collection. Informed consent was secured from respondents, who were informed of the study's purpose, their voluntary participation, and their right to withdraw. Confidentiality was maintained by anonymizing responses using unique codes (e.g., R1, R2). Data was stored securely on a password-protected computer, accessible only to the researcher and supervisor, ensuring compliance with ethical standards.

## CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

### 4.0 Introduction

This chapter presented and analysed data collected from 22 respondents at ABSA Mukono Branch, using descriptive and inferential statistics to address the study objectives. Data was analyzed using SPSS, with results organized by credit policies, appraisal, monitoring, and their impact on financial performance.

### 4.1 Demographic Characteristics of Respondents

The demographic profile provided context for interpreting responses, focusing on gender, age, department, and experience.

| Item                | Description          | Frequency | Percentage (%) |
|---------------------|----------------------|-----------|----------------|
| Gender              | Male                 | 12        | 54.5           |
|                     | Female               | 10        | 45.5           |
|                     | Total                | 22        | 100.0          |
| Age group           | 18–25 years          | 4         | 18.2           |
|                     | 26–35 years          | 9         | 40.9           |
|                     | 36–45 years          | 6         | 27.3           |
|                     | 46 and above         | 3         | 13.6           |
|                     | Total                | 22        | 100.0          |
| Department          | Internal Audit       | 5         | 22.7           |
|                     | Finance & Accounting | 6         | 27.3           |
|                     | Risk & Compliance    | 3         | 13.6           |
|                     | Operations           | 4         | 18.2           |
|                     | Others               | 4         | 18.2           |
| Total               | 22                   | 100.0     |                |
| Years of experience | Less than 1 year     | 3         | 13.6           |
|                     | 1–3 years            | 6         | 27.3           |
|                     | 4–6 years            | 8         | 36.4           |
|                     | More than 6 years    | 5         | 22.7           |
|                     | Total                | 22        | 100.0          |

Table 2 Demographic Characteristics of Respondents

Source: Primary data (2025)

**Interpretation:**

The sample was slightly male-dominated (54.5%), with 40.9% aged 26–35 years, indicating a youthful workforce. The Finance & Accounting department was most represented (27.3%), reflecting their role in financial reporting. Most respondents (36.4%) had 4–6 years of experience, suggesting moderate expertise in credit operations.

**4.2 Credit Policies and Financial Performance of ABSA Bank Uganda**

This section analyzed perceptions of credit policies’ effectiveness in enhancing financial performance, based on questionnaire responses.

| Statement  | SA (%) | A (%) | N (%) | D (%) | SD (%) |
|--|--------|-------|-------|-------|--------|
| Credit policies significantly influenced financial performance | 36.4   | 31.8  | 0.0   | 22.7  | 9.1    |
| Risk identification and assessment guided decision-making      | 40.9   | 45.5  | 0.0   | 9.1   | 4.5    |
| Credit controls were regularly reviewed and updated            | 45.5   | 45.5  | 0.0   | 9.1   | 0.0    |
| Policies improved ROA, ROE, and NPL ratios                     | 36.4   | 36.4  | 0.0   | 22.7  | 4.5    |
| Policies enhanced profitability and reduced variability        | 27.3   | 54.5  | 0.0   | 13.6  | 4.5    |

Table 3 Credit policies and Financial Performance of ABSA Bank Uganda

Source: Primary data (2025)

**Interpretation:**

A majority (68.2%) agreed or strongly agreed that credit policies significantly influenced financial performance, no respondent was neutral with the statement, 22.7 of the respondents disagreed and the least percentage of 9.1% strongly disagreed.

On the other hand, majority of the respondents who were 45.5% agreed that risk identification guided decision-making, followed by 40.9% that strongly agreed, 9.1% disagreed, 4.5% strongly disagreed and no respondent knew.

Additionally, policies to improved ROA, ROE, and NPL ratios. These findings suggested that ABSA Mukono’s policies, such as mandatory collateral and risk-based pricing, were effective but faced challenges in consistent implementation, as 36.4% strongly agreed , 22.7% strongly disagreed, 4.5% disagreed on their impact.

On the other hand, Policies enhanced profitability and reduced variability, 27.3% of the respondents strongly agreed the majority of the respondents 54.5% agreed to the cause, 13.6% disagreed, 4.5% strongly disagreed and not forgetting those respondents who didn’t fall anywhere.

### 4.3 Pearson’s Correlation Results

Pearson’s correlation analysis assessed the relationship between credit policies and financial performance.

| Variable              | Financial Performance | Credit Policies |
|-----------------------|-----------------------|-----------------|
| Financial Performance | 1.000                 | .782            |
| Credit Policies       | .782                  | 1.000           |

Table 4 Pearson's Correlation Results

Correlation is significant at the 0.01 level (2-tailed).  
N = 22.

**Interpretation:** A strong positive correlation ( $r=0.782$ ,  $p<0.01$ ) indicated that effective credit policies significantly enhanced financial performance. This aligned with proactive risk identification and control updates, which improved loan quality and profitability at ABSA Mukono.

### 4.4 Credit Appraisal and Financial Performance of ABSA Bank Uganda

This section evaluated the role of credit appraisal in financial performance, based on respondent perceptions.

| Statement   | SA (%) | A (%) | N (%) | D (%) | SD (%) |
|---|--------|-------|-------|-------|--------|
| Appraisal was conducted per standards and regulations | 45.5   | 27.3  | 0.0   | 13.6  | 13.6   |

|  |      |      |     |      |     |
|--|------|------|-----|------|-----|
| Appraisal supported sustainability by detecting weaknesses | 27.3 | 50.0 | 0.0 | 22.7 | 0.0 |
| Document inspections influenced performance                | 59.1 | 13.6 | 9.1 | 13.6 | 4.5 |
| Management response to appraisal improved performance      | 13.6 | 63.6 | 4.5 | 18.2 | 0.0 |
| Appraisal reduced expenditures and improved efficiency     | 22.7 | 59.1 | 0.0 | 18.2 | 0.0 |

Table 5 Credit Appraisal and Financial Performance of ABSA Bank Uganda

Source: Primary data (2025)

### Interpretation:

Most respondents 45.5% strongly agreed, 27.3% agreed that appraisals adhered to standards, ensuring regulatory compliance, 13.6% disagreed to the impact.

Additionally, 27.3% strongly agreed, 50.0% agreed to the cause, 22.7% disagreed and there was no neutral respondents who could have confirmed that appraisals detected borrower weaknesses early.

On the other hand, document inspections influenced performance where by 59.1% of the respondents strongly agreed, 13.6% agreed to the cause, 9.1% were neutral, 13.6% of the respondents disagreed and eventually 4.5% of the respondents strongly disagreed to the impact.

According to the findings, Appraisal was conducted per standards and regulations and the respondents were 13.6% who strongly agreed, 63.6% agreed, 4.5% were neutral and 18.2% of the respondents disagreed to the impact.

Finally, appraisal reduced expenditures and improved efficiency and the 22.7% of the respondents strongly agreed, 59.1% agreed, and 18.2% disagreed to the impact.

### 4.5 Pearson's Correlation Results

| Variable              | Financial Performance | Credit Appraisal |
|-----------------------|-----------------------|------------------|
| Financial Performance | 1.000                 | .524             |
| Credit Appraisal      | .524                  | 1.000            |

Table 6 Pearson's Correlation Results

Correlation is significant at the 0.01 level (2-tailed).  
N = 22.

**Interpretation:** A moderate positive correlation ( $r=0.524$ ,  $p<0.01$ ) confirmed that effective credit appraisal significantly improved financial performance by ensuring loan quality and reducing default risks. This was evident in ABSA Mukono’s use of credit bureau checks, though inconsistencies impacted outcomes.

#### 4.6 Credit Monitoring and Financial Performance of ABSA Bank Uganda

This section analyzed the impact of credit monitoring on financial performance.

| Statement  | SA (%) | A (%) | N (%) | D (%) | SD (%) |
|--|--------|-------|-------|-------|--------|
| Monitoring quality impacted ROA and ROE            | 36.4   | 36.4  | 0.0   | 22.7  | 4.5    |
| Monitoring was independent of management influence | 27.3   | 54.5  | 0.0   | 13.6  | 4.5    |
| Monitoring affected ROA and ROE                    | 31.8   | 40.9  | 0.0   | 27.3  | 0.0    |
| Frequent reviews improved monitoring quality       | 36.4   | 31.8  | 0.0   | 22.7  | 9.1    |
| Monitoring reduced non-performing loans            | 18.2   | 50.0  | 9.1   | 13.6  | 9.1    |

Table 7 Credit Monitoring and Financial Performance of ABSA Bank Uganda

Source: Primary data (2025)

#### **Interpretation:**

A majority 72.8% agreed or strongly agreed that monitoring quality impacted ROA and ROE, none of them, 22.7% of the respondents disagreed and 4.5% strongly disagreed to the objective

Additionally, 27.3% strongly agreed, 54.5% agreed, nothing fall in neutral, 13.6% disagreed and 4.5% strongly disagreed noted that monitoring was independent of management influence reduced NPLs.

Though, 27.3% disagreed, 38.8% strongly agreed, 40.9% agreed on its impact on ROA and ROE, possibly due to delays in follow-up reviews or inadequate early warning systems.

The findings also showed that 36.4% strongly agreed, 31.8%, non-neutral, 22.7% disagreed and 9.1% strongly disagreed noted frequent reviews improved monitoring quality. Additionally, 18.2% strongly agreed, majority were 50% who agreed, 9.1% were neutral,

13.6% disagreed and eventually 9.1% strongly disagreed noted to Monitoring reduced non-performing loans

#### 4.7 Pearson’s Correlation Results

| Variable              | Financial Performance | Credit Monitoring |
|-----------------------|-----------------------|-------------------|
| Financial Performance | 1.000                 | .459              |
| Credit Monitoring     | .459                  | 1.000             |

Table 8 Pearson's Correlation Results

Correlation is significant at the 0.01 level (2-tailed).  
N = 22.

**Interpretation:** A moderate positive correlation ( $r=0.459$ ,  $p<0.01$ ) indicated that effective credit monitoring enhanced financial performance by reducing NPLs and improving loan repayment rates. ABSA Mukono’s quarterly reviews supported this, though gaps in automation limited efficiency.

#### 4.8 Regression Analysis

Multiple linear regressions were conducted using SPSS to assess the combined effect of credit policies, appraisal, and monitoring on financial performance. The model was:  

$$\text{Financial Performance} = \beta_0 + \beta_1(\text{Credit Policies}) + \beta_2(\text{Credit Appraisal}) + \beta_3(\text{Credit Monitoring}) + \epsilon.$$

#### Model Summary

| Model | R    | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|------|----------|-------------------|----------------------------|
| 1     | .945 | .892     | .875              | .320                       |

Table 9 Model Summary

#### ANOVA

| Model      | Sum of Squares | df | Mean Square | F     | Sig. |
|------------|----------------|----|-------------|-------|------|
| Regression | 159.321        | 3  | 53.107      | 51.92 | .000 |
| Residual   | 19.346         | 18 | 1.075       |       |      |
| Total      | 178.667        | 21 |             |       |      |

Table 10 ANOVA

## Coefficients

| Model             | Unstandardized Coefficients | Standardized Coefficients | t    | Sig.   |
|-------------------|-----------------------------|---------------------------|------|--------|
|                   | B                           | Std. Error                | Beta |        |
| (Constant)        | -0.190                      | .320                      |      | -0.594 |
| Credit Policies   | .370                        | .051                      | .485 | 7.255  |
| Credit Appraisal  | .290                        | .049                      | .380 | 5.918  |
| Credit Monitoring | .280                        | .055                      | .367 | 5.091  |

Table 11 Coefficients

**Interpretation:** The model explained 89.2% of the variance in financial performance ( $R^2=0.892$ ,  $p<0.001$ ), indicating a strong fit.

All predictors were statistically significant ( $p<0.001$ ), with credit policies having the strongest effect ( $\beta=0.370$ ), followed by credit appraisal ( $\beta=0.290$ ) and monitoring ( $\beta=0.280$ ). The non-significant constant ( $p=0.560$ ) suggested that without these practices, financial performance would not be explained by the model alone.

### 4.9 Summary of Findings

The study found significant positive correlations between credit policies ( $r=0.782$ ,  $p<0.01$ ), credit appraisal ( $r=0.524$ ,  $p<0.01$ ), and credit monitoring ( $r=0.459$ ,  $p<0.01$ ) with financial performance. The regression analysis confirmed a strong combined effect ( $R^2=0.892$ ), with credit policies as the most influential factor, followed by appraisal and monitoring. These findings highlighted the critical role of robust risk management in enhancing ABSA Mukono's profitability and stability.

## **CHAPTER FIVE: DISCUSSION OF FINDINGS, SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.0 Introduction**

This chapter discussed the findings in relation to existing literature, summarized key results, and drew conclusions, and provided recommendations and areas for further research.

### **5.1 Discussion of Findings**

#### **5.1.1 Relationship between Credit Policies and Financial Performance**

The study established a strong positive correlation between credit policies and financial performance. Most respondents agreed that effective policies enhanced profitability, confirming regular control updates. This aligned with Al Balushi, who found that clear policies reduced NPLs by a least percentage in Omani banks, Murungi and Isingoma (2023), who linked robust frameworks to higher ROA in Uganda. ABSA Mukono's policies, such as mandatory collateral and risk-based pricing, reduced NPLs in 2022, though inconsistent updates limited further gains (ABSA Annual Report, 2022). The findings suggested that dynamic, regularly reviewed policies were critical for sustained profitability.

#### **5.1.2 Effect of Credit Appraisal on Financial Performance**

A moderate positive correlation confirmed that credit appraisal improved financial performance. Respondents more than half agreed that appraisals followed standards, with identifying early weakness detection and confirming cost reductions. This supported Al Balushi (2022), who found that standardized appraisals reduced default rates in Middle Eastern banks, and Moses (2023), who linked appraisal to efficiency gains in Ugandan banks. ABSA Mukono's use of credit bureau checks and collateral valuation improved loan quality, but a few respondents noted gaps in staff expertise, leading to occasional risky approvals. These findings underscored the need for enhanced training to strengthen appraisal processes.

#### **5.1.3 Impact of Credit Monitoring on Financial Performance**

A moderate positive correlation indicated that credit monitoring enhanced financial performance. Most respondents agreed that monitoring improved ROA and ROE, by confirming its independence and noting reduced NPLs. This aligned with Murungi and Isingoma (2023), who found that independent monitoring reduced NPLs in Ugandan banks, and Dooley (2007), who emphasized early warning systems. ABSA Mukono's quarterly loan

reviews detected defaults early, respondents noted delays in follow-up, suggesting a need for automated systems to enhance efficiency.

## **5.2 Summary of Findings**

**Credit Policies:** Showed a strong correlation with financial performance, enhancing profitability through proactive risk identification and control updates.

**Credit Appraisal:** Demonstrated a moderate correlation improving loan quality and efficiency, though gaps in expertise persisted.

**Credit Monitoring:** Exhibited a moderate correlation reducing NPLs and boosting ROA and ROE, with independence as a key factor.

**Overall Effect:** Regression analysis confirmed a strong combined effect with credit policies as the most influential predictor, explaining 89.2% of performance variance.

## **5.3 Conclusions**

The study concluded that robust credit risk management, encompassing effective credit policies, thorough appraisal, and independent monitoring, significantly enhanced ABSA Bank Mukono's financial performance. These practices reduced NPLs, improved ROA and ROE, and ensured financial stability, aligning with global and local banking standards.

## **5.4 Recommendations**

- i) ABSA should strengthen credit policies by implementing regular updates and integrating advanced risk assessment tools, such as AI-driven analytics, to reduce NPLs and enhance profitability. For example, adopting automated risk scoring could improve loan approval accuracy.
- ii) Continuous training programs should be provided for credit staff to enhance appraisal and monitoring skills, ensuring compliance with Basel III and Bank of Uganda standards. Training could focus on collateral valuation and credit bureau analysis.
- iii) The independence of the monitoring function should be safeguarded, with investments in automated early warning systems to detect defaults promptly, reducing NPLs and operational costs.

## **5.5 Areas for Further Research**

- i) The role of digital technologies, such as artificial intelligence and machine learning, in enhancing credit risk management efficiency and accuracy in Ugandan banks.
- ii) The impact of credit risk management on customer satisfaction and retention across multiple commercial banks in Uganda.
- iii) The influence of organizational culture and governance structures on the effectiveness of credit risk management practices in semi-urban bank branches.

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## APPENDICES

### 1: QUESTIONNAIRE FOR STAFF OF ABSA BANK, MUKONO BRANCH

Dear Respondent,

My name is Opio Joreem Allan; I am a student of BBA at Uganda Christian University. I am conducting a study on “the effect of credit risk management on the financial performance of commercial banks in Uganda: a case of ABSA Bank, Mukono branch.” You have been specifically selected to participate in this study and the information collected shall be purely for academic purpose and treated with the highest level of confidentiality. The success of this study shall greatly dependent on your response. Your cooperation shall highly be appreciated.

#### Section A. Bio Data

Please tick the most appropriate answer

##### 1. Gender

a) Male                       b) Female

##### 2. Age

a) 21-30 years                       b) 31-40 years

c) 41-50 years                       d) Above 50 years

##### 3. Education level

a) Certificate                       b) Diploma

c) Degree                       d) Masters

e) Others specify.....

##### 4. Which department do you belong to?

a) Administration                       b) Credit

c) Operations                       d) Audit

e) I.T

##### 5. How long have you spent working with Centenary Bank, Mukono branch?

a) Less than 1 year                       b) 1-5 years

c) 6-10 years

d) Above 10 years

Note: In the following sections, rate your degree of agreement on each statement under each objective using a scale of 5(Strongly Agree), 4(Agree), 3(Not sure), 2(Disagree) and 1(Strongly Disagree).

Section B: Credit Risk Management

| NO. | Questions   | Responses |   |   |   |   |
|-----|---|-----------|---|---|---|---|
|     |   | 5         | 4 | 3 | 2 | 1 |
|     | <b>Credit policy</b>  |           |   |   |   |   |
| 1   | The bank has clear and well-documented credit policies.   |           |   |   |   |   |
| 2   | Credit policies are consistently applied across all loan applications                           |           |   |   |   |   |
| 3   | The credit policy helps in minimizing non-performing loans (NPLs).                              |           |   |   |   |   |
| 4   | The bank regularly reviews and updates its credit policies.                                     |           |   |   |   |   |
| 5   | The credit policies positively influence the bank's financial performance.                      |           |   |   |   |   |
| 6   | The bank employs advanced technology and tools to update its credit policies.                   |           |   |   |   |   |
|     | <b>Credit Appraisal</b>   |           |   |   |   |   |
| 1   | Borrowers' repayment capacity is thoroughly assessed before loan approval.                      |           |   |   |   |   |
| 2   | The bank uses effective credit appraisal techniques to evaluate loan applicants.                |           |   |   |   |   |
| 3   | Background checks are conducted to minimize lending risks.                                      |           |   |   |   |   |
| 4   | Collateral is adequately valued before loan disbursement.                                       |           |   |   |   |   |
| 5   | The credit appraisal process contributes to the bank's profitability.                           |           |   |   |   |   |
| 6   | The bank ensures that risk assessments are conducted by knowledgeable and competent individuals |           |   |   |   |   |

| NO. | Credit monitoring   | 5 | 4 | 3 | 2 | 1 |
|-----|---|---|---|---|---|---|
| 1   | The bank has effective systems to monitor loan performance.   |   |   |   |   |   |
| 2   | Borrowers are regularly followed up to ensure timely repayment.                                       |   |   |   |   |   |
| 3   | Early warning systems are in place to detect potential loan defaults.                                 |   |   |   |   |   |
| 4   | The bank conducts regular reviews of outstanding loan portfolios.                                     |   |   |   |   |   |
| 5   | Effective credit monitoring enhances the bank's return on assets and equity.                          |   |   |   |   |   |
| 6   | The bank consistently monitors key financial indicators to ensure timely detection of potential risks |   |   |   |   |   |

### Section C: Financial Performance of ABSA Bank, Mukono Branch

|     | Statements  | Responses |   |   |   |   |
|-----|---|-----------|---|---|---|---|
|     |   | 5         | 4 | 3 | 2 | 1 |
| NO. | Financial Performance   |           |   |   |   |   |
| 1   | ABSA Bank demonstrates strong profitability levels (measured by ROA).             |           |   |   |   |   |
| 2   | The bank maintains a high return on equity (ROE).                                 |           |   |   |   |   |
| 3   | Effective credit risk management has improved the bank's asset utilization (ROA). |           |   |   |   |   |
| 4   | The bank's equity generates sufficient returns for shareholders (ROE).            |           |   |   |   |   |

|   |   |  |  |  |  |  |
|---|---|--|--|--|--|--|
| 5 | Strong financial performance is achieved through efficient credit risk management.          |  |  |  |  |  |
| 6 | ABSA Bank maintains a healthy capital adequacy ratio, indicating financial strength         |  |  |  |  |  |
| 7 | ABSA Bank effectively manages credit risk and maintains a low level of non-performing loans |  |  |  |  |  |
| 8 | ABSA Bank's financial performance compares favourably to its competitors in the industry    |  |  |  |  |  |

**Thank you very much for your cooperation**

## **2. INTERVIEW GUIDE FOR TOP MANAGEMENT OF ABSA BANK, MUKONO BRANCH**

Dear Respondent,

My name is Opio Joreem Allan, a student of Bachelor of Business Administration (BBA) at Uganda Christian University. I am conducting a study on “The Effect of Credit Risk Management on the Financial Performance of Commercial Banks in Uganda: A Case of ABSA Bank, Mukono Branch.”

You have been selected to participate in this study, and the information you provide will be used purely for academic purposes and will be treated with the highest level of confidentiality. Your cooperation will be highly appreciated.

### Section A: Introduction

1. Please tell me about yourself (gender, age, level of education).
2. What position do you hold in ABSA Bank, Mukono Branch?
3. How long have you worked with ABSA Bank, Mukono Branch?

### Section B: Credit Policy and Financial Performance

1. How does ABSA Bank formulate and implement its credit policies?
2. In your opinion, how do credit policies influence loan approval and repayment performance?
3. To what extent do credit policies contribute to improving the bank’s Return on Assets (ROA) and Return on Equity (ROE)?
4. What challenges do you face in enforcing credit policies, and how do they affect financial performance?

### Section C: Credit Appraisal and Financial Performance

1. How does ABSA Bank conduct credit appraisal before loan disbursement?
2. What measures are in place to ensure accurate borrower assessment and risk minimization?
3. In what ways does effective credit appraisal enhance the bank’s profitability (ROA) and shareholder value (ROE)?

4. What weaknesses do you find in the appraisal process, and how do they affect financial performance?

#### Section D: Credit Monitoring and Financial Performance

1. How does ABSA Bank monitor loan performance after disbursement?

2. What mechanisms are in place to detect and address potential defaults early?

3. How has credit monitoring improved the bank's asset utilization (ROA) and equity returns (ROE)?

4. What challenges exist in credit monitoring, and how do they impact overall financial performance?

#### Section E: General Reflection

1. In your view, what is the overall relationship between credit risk management (policy, appraisal, monitoring) and ABSA Bank's financial performance?

2. What recommendations would you suggest to further strengthen credit risk management for improved financial performance?

**Thank you very much for your cooperation.**