CREDIT POLICY AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KAMPALA, UGANDA: A CASE STUDY OF PEARL BANK UGANDA, MAIN BRANCH

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S23BO5/122

A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF SCIENCE ACCOUNTING AND FINANCE OF UGANDA CHRISTIAN UNIVERSITY

April, 2026

UGANDA CHRISTIAN UNIVERSITY
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DECLARATION

I Mutatina B. George S23B05/122, declare that this research dissertation entitled Credit Policy and Financial Performance of Commercial Banks in Kampala, Uganda: A Case Study of Pearl Bank Uganda, Main Branch is my original work and has not been submitted for an academic award in any university or institution of higher learning.

This dissertation is submitted in partial fulfilment of the requirements for the award of a Bachelor of Business Administration at Uganda Christian University.

Signature..

Date...15th April, 2026.

APPROVAL

This research dissertation entitled Credit Policy and Financial Performance of Commercial Banks in Kampala, UGANDA: A Case Study of Pearl Bank Uganda, Main Branch has been submitted by Mutatina B George for examination with my approval as supervisor.

Signature....................................

Date.....15/04/2026.....

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DEDICATION

This research dissertation is dedicated to my beloved family, who have been my unwavering source of strength, inspiration, and encouragement throughout this academic journey. I also dedicate this work to friends, community and pearl bank whose experiences helped me to have a successful research study. Their endless love and support made this achievement possible.

ACKNOWLEDGEMENT

I would like to express my sincere gratitude to God Almighty for giving me the strength and wisdom to complete this research dissertation. I would like to thank my supervisor Mr. Ahabwe Alex for his most valuable guidance and support throughout my research journey. I also appreciate the support extended by the management and staff of Pearl Bank Uganda, Main Branch. Finally, I would like to thank my family and friends for their encouragement and support during my academic journey at the Uganda Christian University School of Business.

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ABSTRACT

This study sought to investigate the relationship between credit policy, such as interest rate policy, loan approval policy, and loan terms and financial performance of commercial banks in Kampala, Uganda, using a case study of Pearl Bank Uganda Main Branch. The study was undertaken using a quantitative approach with 43 respondents out of a target of 44 (98% response rate) and findings analysed using descriptive statistics. The findings of this study revealed that rigorous credit policy in evaluating credit applications reduces non-performing loans, and flexible loan terms positively relate to returns on assets and returns on equity of commercial banks in Uganda. The study findings also showed that respondents have a consensus on the efficient performance of commercial banks as a result of credit policy application. However, knowledge and application of credit policy could improve efficiency in performing credit functions and regulations. Additionally, workers reached a consensus on the effectiveness of credit policy in improving financial performance in terms of management of credit implementation and minimizing credit risk. However, comprehension and application of credit policy are not consistent in workers and therefore need improvement in financial health evaluation and revenue growth. The major findings include the following: the mean values for the results indicate that increasing interest rates increase net interest margins, though this may be at the expense of loan volume (mean = 3.80), and the criteria for approving loans, such as the LTV ratio, decrease default risk (mean = 3.58). The study recommends balanced credit policies to optimize profitability amid Uganda's 5.9% NPL ratio as of 2023

Furthermore, the research showed that approval criteria assure asset quality and that early reception is required to maximize working capital, improve profitability, and reduce the risk of default. The necessity for reliable information emphasizes the relevance of effective accounting in decision-making. Based on the findings, solutions include credit management through internet-based innovations, financial reporting through the use of computerized accounting packages, and training to improve financial management abilities in credit departments. These improvements may improve the commercial bank's financial performance and operational feasibility.

LIST OF ABBREVIATIONS

CSO – Customer Service Officer

NIM-Net Interest Margins

ROA - Returns on Asset

ROE – Returns on Equity

NPL – Non-Performing Loan

BOM – Bank Operations Manager

BM - Bank Manager

SPSS - statistical package for social sciences

UCU – Uganda Christian University

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter lays out the study's background, statement of the problem, research objectives and questions, scope, significance and conceptual framework.

1.1Background of the study

Banks are essentially private businesses that take in deposits from customers and give out loans as described by the Connecticut department of finance. Deposits are simply money people entrust to the bank with promise they can withdraw it at any time or on a set date as both sides agree to. Loans meanwhile are funds lent to borrowers who repay them later, usually with an interest added on. At its core, this is a business of financial intermediation that channels savings into loans that fuel economic activity. But banks do much more than that. They drive daily payments because most folks and business entities use checking accounts to pay their bills. They provide personal loans like car financing, mortgages, and student aid. And they're the biggest backers of business, especially for those trying to grow. That's why people call banks the engine of the economy because they don't just move money; they help our government steer money with monetary policy.

1.1.1 Historical background.

Credit policies in commercial banks have undergone major changes. In the past, banks have relied on credit to attain the greatest profit with the least risk involved in the process (Osayameh, 1996; Nansubuga, 2015). The management of credit risk has been a major concern because it is the greatest risk that banks face (Gieseche, 2004). Studies on the subject have been conducted in the past, especially in the 1920s-1930s by Phillips that analyzed bank credit expansion and its effects on money supply (Black, 2021). In the end, credit policy has come to be used as a managerial tool to attain profitability (Pandey, 1999; Nansubuga, 2015.

The Basel accords era (20th century) introduced significantly the formalization of global credit risk management where banks changed from simply lending to developing sophisticated systems for managing risks for capital adequacy and asset quality (Ozil,2019).

Currently, the policy is linked to the regulatory capital requirements and the measurement of expected losses (Kargi,2021; Nguyen,2023).

1.1.2Conceptual background

Credit policy is defined as the institutional rules and guidelines for the provision and management of loans with the aim of achieving the maximum benefits and the minimum costs (Ahimbishwe, 2002; Girm 1996). The major components include the credit standards, terms, and collection efforts (Brigham and Houston, 1999; Pandey, 2001). The performance of banks and other financial institutions entails the measurement of their profitability, which can be measured by the return on assets, return on equity, and default rates (Graham, 1996; Kamukama, 2006; Kolapo et al., 2012). Profitability entails the excess return over the costs of the banks associated with the loans (Graham, 1996).

According to Patrick W. Mafumbo (Victoria University, 2021), credit policy is the component of credit management that entails the loan approval mechanisms, risk assessment, and monitoring mechanisms. He also argued that though the credit policy does not influence the performance, it plays a supporting role alongside credit risk control and capital adequacy

Kakuru (2013) defines credit policy as the smart, intentional steps banks take to make borrowing cheaper for good customers while maximizing the upside. It can be likened to the bank's play book which is a clear guide on who gets credit and who does not get credit. However, the main aim of having credit policy is to avoid lending money to those who are likely not to pay. As Ed minister (2010) defined, it is the system's rule book for reviewing applications and setting standards for approval with the aim of maximizing debt recovery. Whether the bank plays it tough or lenient, it can work depending on the balance.

Credit policy has a direct effect on cash flows. When the bank becomes too tough, lending becomes scary, hence there are very few loans, and consequently, less revenue is generated. However, when there is an ease in lending, bad debtors are attracted, hence cash crushes. When there is the right balance, clients are kept happy, and cash flows are steady. When businesses are hungry for working capital and growth finance, everybody is knocking on the bank's and microfinance's doors (Patrick,2019).

From insurance to mortgages, lenders are a key line. According to Puxty (2011), financial performance can be defined as how well money works, or how money is making money in terms of the returns on the loan or investment. This provides the complete picture of assets, debts, profits, and expenses. Various stakeholders are using different formulas to evaluate how the bank is doing, such as ROA, ROE, and profit margin, to name a few, to evaluate if the bank is thriving or merely surviving. The bank's own people monitor this to ensure that the bank is healthy.

Nguyen (2023) nails the connection that solid credit policies sharpen risk management directly boosting profits. High nonperforming loans are profit killers in that they dont eat capital and tank returns. Vietnamese bank studies showed that NPLs spikes crushing both ROA and ROE proving as to why getting credit policies right is non negotiable.

1.1.3 Theoretical background.

The study was built on the credit risk theory which was posited by Altman (1968). The theory explains how banks assess and manage the risk of borrowers defaulting on loans. The theory asserts that tools such as credit appraisal, risk grading and monitoring can reduce the risk exposure. Banks will enhance their financial performance by setting rigorous credit policies (Kithinji, 2010; Phan Thi Hang 2023).The 5Cs of credit (character, capacity, capital, collateral, and conditions are concepts used to assess borrower creditworthiness to ensure better loan performance (EA Journals).Economic theories related to bank credit creation and monetary policy also provide foundational understanding (Phillips, 1920s-30s).

Furthermore, the principal agent theory addresses the conflict between banks principals and credit officers who may have different incentives. Poorly structured credit policies can lead to moral hazard and adverse selection (principal agent theory 2025). According to kakuru (2013) the primary purpose of banks credit appraisal and monitoring policies is to mitigate information asymmetry. Effective policies enforce due diligence, documentation and continuous monitoring to close the information gap and ensure the quality portfolio.

1.1.3Contextual background

In recent studies focusing on commercial banks, especially in Uganda and East Africa, credit policies are linked to financial performance through effective risk management, credit standards adherence, and collection procedures (Nansubuga, 2015; Nabunnya, 2017; Odokonyero, 2019).

Tight or loose credit policies affect loan portfolio quality and profitability (Ahimbishwe, 2002; Matunda, University of Nairobi). Empirical studies indicate credit policies significantly affect financial performance, influencing loan default rates and returns (Wambugu, 2009; Phan Thi Hang, 2023). the Asian journal of economics (2025) studies highlights persistent gaps in risk mitigation particularly minimising losses from defaults and supporting distressed borrowers. While practices like client appraisal are structured, there is a recognised need for enhanced scenario based planning and improved borrower support systems.

In Uganda, the banking sector operates with the context of sustained economic growth. The GDP growth is projected at approximately 6.2% to 6.4% in the financial year 2024/2025, supported by recovering household consumption and robust investment (world bank 2025). The NPLs -to total gross loans ratio avaraged5.9% as of December 2023, exceeding the internationally accepted asset quality range of 2% to 5%. This signifies an ongoing challenge in credit quality. Commercial bank credit grew by 8% year to year in 2023, driven mainly by household loans and agriculture. The significant proportion of personal loans ang exposure to the risk prone agriculture sector directly affects overall exposure (UBA banking sector report, 2024).

However, overly tight credit rules can hold back commercial banks growth by blocking loans to risker customers baraj,2015) but potentially money making (Giazaw,Kebede &Selvaraj,2015). These strict limits cut down on lending which shrinks the banks income and slice of the market. Additionally, badly designed credit policies often lead to more bad loans (NPLs) hurting the banks finances and good name (Makurura and Matarise, 2018)

1.2 Statement of the problem

A commercial bank's financial success ties directly to its credit policies. These are key for handling risks and staying profitable. Uganda's banking system brings unique hurdles and opportunities that shape how these policies get made and put into action. Credit policies cover things like who qualifies for loans, the terms of borrowing and ways to spot and dodge risks. On the other hand, smart policies boost performance by cutting down on nonperforming loans, sharpening up the loan portfolio and driving higher profits and steadiness (Kargi, 2011)

Commercial banks in Uganda rely heavily on credit creation for their profitability and overall stability. Effective credit policies covering risk assessment, strategic allocation and monitoring are conclusively linked to improved financial performance particularly in terms of profitability and asset quality. Despite regulatory efforts and adoption of modern risk management frame works, NPLs remain a critical threat to the financial sectors stability. High NPL levels directly erode bank profitability by increasing loan loss provisioning, reducing interest income and necessitating higher operating and recovery costs. (Global peer journals,2024; ResearchGate, 2025; MDPI,2023)

In response to the above challenges, Pearl bank Uganda has made significant, high-stake shifts in its credit strategy aiming for both growth and stability. Pearl bank Uganda recently reported a strong financial growth, including a 19% growth in its loan book and a 28% growth in profit after tax (PAT) IN 2024. This success is directly attributed to new policies such as the strategic focus on high growth sectors and leveraging government schemes like agriculture to share lending risk.

Despite of the positive outcomes, these new stringent policies may limit lending volume and profits while lax policies may lead to higher NPLs. Pearl bank Uganda's aggressive credit growth needs to be critically assessed to confirm if the new strategic policies are sustainable in maintaining low NPLs and driving future profitability

The reason for conducting this research is based on the need to get a balance between management of risk and banks' profitability. The research provides details on how these banks can improve on their credit policies by studying the effects of credit policies on commercial bank performance in Uganda.

1.3 Objectives of the study

a. To find out how interest rate policies shape financial performance
b. To assess the relationship between loan approval criteria on financial performance.
c. To examine the correlation between loan terms on financial performance.

1.4 Research questions

a) What is the impact of interest rate policies on financial performance?
b) What is the relationship between loan approval criteria on financial performance?
c) What is the correlation between loan terms and financial performance?

1.5 Scope of study

The study was guided by the content subject scope, geographical scope, and time scope as follows.

1.5.1 Geographical scope

The study is to be conducted at Pearl bank's main branch which is located in Kampala opposite the Blue Height building, William Street along Jinja road, Uganda. I chose pearl bank because it is one of the oldest banks in Uganda with over 20 years since 1998 when it was incorporated as a limited liability. This makes it a good institution for my research information.

1.5.2 Subject scope

This study shows how credit policies affect the financial performance of commercial banks in Uganda. The independent variable is credit policy, and the dependent variable is commercial banks performance. The two variables have an impact on each other and this is to measure the performance through high things like returns, profitability levels, working capital and returns on investment.

1.5.3 Time scope

The research is considered to take period of three months that is from September to December 2025.The time scope of this research to be encompassing data and information collected over the past 10 years, ensuring that the analysis reflects the most current trends and developments relevant to the study.

1.6 Justification of the study

Korkmaz &Korkmaz, 2021; Naveed et al., 2018 discovered that loans are the primary income generator for commercial banks, but the credit risk is universally considered the biggest threat to banks bottom line. Poor credit management is dominant cause of bank failures and banking crises worldwide (Mwenga, 2009). In emerging markets including Uganda banks face unique challenges such as economic volatility, limited access to reliable financial information and evolving regulatory environments which increase the complexity of credit risk management. Despite of the extensive research on credit policies there a still gap in understanding how credit components such as credit terms, standards and collection procedures which directly influence the financial performance of banks in the dynamic markets (Kithinji,2010; Nabunnya, 2017)

In addition, banks must find optimum credit policy that is neither too stringent nor too liberal. This will determine the balance needed between maximising profitability and minimising bad debts. Credit management risks have become the most important issue in banks in that policies such as credit appraisal, monitoring and recovery will reduce the default rates of customers, and this therefore requires much attention (Petersen &Rajan,2015; Singh & Damanik, 2025)

1.7 Significance of the study

This study gives an insight on how credit policies work in the banking system of Uganda.

It will serve as a guide for future researchers who will carryout their study on credit policies and how they impact financial performance of commercial banks.

The bank of Uganda as a regulating body for other banks, it can use the findings to shape the monetary policy and fiscal policies that boost the country's economic growth.

1.8 Conceptual framework

The diagram below shows credit policy as an independent variable and commercial bank's financial performance as a dependent variable

INDEPENDENT VARIABLE

CREDIT POLICY

- Interest rate policies
- Loan approval criteria
- loan terms

DEPENDENT VARIABLE

FINANCIAL PERFORMANCE

- Gross profit margin
- Net profit margin
- Return on investment

INTERVENING VARIABLES

- government policy
- inflation
- risk free rate

Adopted from Henrys principles (2015) and tweaked by Henry Srivastava

As Mary Hall (202) points out when interest rates go up, bank earnings usually go high too. For beginners, high rates represent a growing economy, but the major concern is on how banks generate bigger interests on the money they lend out. Banks pull this off by grabbing deposits from customers who pay them little interest and then parking the cash in other sorts of investment. The profit boils down to what they earn from such investments minus what they pay to depositors. Higher payouts therefore mean healthier returns until they get so steep to business and people stop borrowing thus affecting the lending side.

Alshatti (2015) indicates that loan approval rules highly influence the commercial bank's financial health by increasing the credit risk and profits. A super strict criteria helps to minimise defaults arising from a top-notch loan book and reducing provisions or reserves for bad debts. This keeps liquidity strong, capital ratios high, hence boosting stability. On the other hand, easy going rules increase loan volume but invite more flops, pilling on non-performing assets that reduce profits and shake the bank's growth.

Loan terms have a big impact on how happy customers feel, and this includes how long it will take to payback the loan, the interest rate, wiggle room on payback, and just overall simplicity. The longer it will take to payback the loan, the better the interest rate, the more wiggle room, and the more simple and straight forward the terms, the happier the customer will be because they will feel smart and safe. The faster the loan can be processed and the more friendly the people at the bank, the happier the customer will be (research square ,2021). Customers love it when the payback terms are reasonable, when the penalties for messing up are fair, and when the terms are totally upfront andBarres et, 2011)

1.9 DEFINITION OF KEY TERMS

Credit

Bringham and Houston define the term credit as something valuable such as cash, goods you get and promise to repay it after some time usually with an interest added on it. This covers rules, terms and follow up collection terms that dictate how much a creditor is supposed to pay back following the pay back conditions

Credit policy.

Brigham and Houston (2001) break this down into three core parts that is to say credit standards meaning who qualifies, credit terms that's how long to pay and collection efforts which is how effectively you will chase for the pay backs or overdue bills provided by these commercial banks. Kakuru (2007) additionally talks about credit policy as a tool of reducing on credit costs and ensuring profitability as well as cash flows of commercial banks. The policy is all about investing the right amount in debtors in order to achieve profitability and liquidity objectives under an ideal investment where the cost benefit trade off is involved.

Commercial bank

A commercial bank is a financial institution or body that provides different financial services to people, companies, and governments. These financial institutions take deposits, give out business loans and mortgages, provide basic investments and regulate the flow of money in the economy. In addition to this, their credit policies that is standards, terms and collections tend to lend wisely (Brigham and Houston, 2001).

Financial performance

Wanjiku (2018) defines financial performance as a scoring tool of the company's money circulation and operations in monetary terms reflecting on returns on investment, ROE, and liquidity levels.

Micheni (2016) describes financial performance as a subjective measure on how well a firm terms assets into cash overtime. He also argues that financial performance is a broad measurement used by banks in meeting their financial duties.

Bustin (2019) defines financial performance as the ability of the bank to work efficiently, profitably, survive, grow and respond to the risks and opportunities within the banking environment. "Performance" comes from the word "performer" meaning to deliver or pull off. Its about doing tasks against the goals set for accuracy, completeness, cost, and speed and this symbolises how well an entity or firm can hit its targeted objectives, thrives and stays competent.

CHAPTER TWO

LITERATURE REVIEW

2.0 introduction

This chapter describes key credit elements commercial banks use to weigh customer credit worthiness, manage costs related to it, and boost the overall financial performance. It also defines how these policies shape the outcomes of commercial banks basing on the studies that cause the effects of interest rates, loan approval criteria and loan terms on financial outcomes. Information in this chapter is guided by the main themes which are to find out the impact of interests on financial performance, to assess the relationship between loan approval criteria and financial performance and to examine the relationship between loan terms and financial performance.

2.1 The Impact of interest rate policies on financial performance.

Banks' financial performance has been for long determined on interest rates. Commercial banks' net interest margins are largely subjected to market shifts. Rising interest rates tend to lift profits as stated by Shiller and McCulloch (2017) and Samuelson (2020). Samuelson (2020) continues to say that the banking sector as a whole is immensely assisted rather than affected by the rise in the interest rate and therefore commercial banks would generate more profits more than saving banks.

Maisel and Jacobson (2021) found that there was no impact of institutions in efficient markets because financial institutions can forecast the outcomes in the future using readily available information. They use computer responses while seeking to achieve a balance between costs and returns effectively. Strong financial markets enable the management of assets, liabilities, costs, and returns to be managed quickly and efficiently, according to the authors. They based their analysis on cross-section data on bank costs and revenues from 1962 to 1975, with a particular emphasis on book-value costs and net income rates. There were major changes between 1970 and 1975.

Davies and Vaught (2019) explored the influence of interest rates on Southern banks' profit margins. These regional banks' margins followed central bank directives across the studied countries. Data came from regional central banks for regulatory oversight. High economic and country risks, plus compliance costs, could affect rates, yet banks sustained strong profits, averaging 4.8% ROA since 2001, largely from foreign exchange gains.

Bikker and Vervliet (2018) highlighted robust credit risk management as key to banks' profitability amid interest rate changes. Banks with solid risk evaluation systems better navigated rate volatility. These systems help accurately gauge borrowers' credit quality and predict defaults, leading to smarter lending choices. Effective credit risk control supports healthier loan books, fewer non-performing loans (NPLs), and steady income despite rate swings. The authors noted this is vital in low-rate environments, where riskier lending temptations rise, helping banks protect net interest margins (NIM) and profits regardless of conditions.

Tamoorespouri and Ardekani (2018) analysed interest rates' effects on bank returns and scale using data from 14 markets between 2001 and 2010. They examined various financial ratios, with bank returns as core variables. Results showed mixed positive and negative impacts from rate fluctuations, influenced by market size, macroeconomics, monetary policies, and country factors. Most countries displayed a positive link between returns and interest rate spreads, excluding India, Japan, Denmark, and Switzerland.

Claessens et al. (2018) observed that low rates for long periods compress net interest margins (NIM), resulting in a sharp decline in profitability. Demirgüç-Kunt & Huizinga (2020) highlighted that banks face difficulties in raising lending rates during periods of low rates due to competitive pressures that compress the loan-deposit spread. Bikker & Vervliet (2018) stressed that banks with good credit risk management can sustain profitability in periods of rate changes because they mitigate credit risks associated with rate changes. Ozili (2019) observed that during periods of low rates, NPLs fall as debtors can service debt at lower rates may encourage riskier lending practices, ultimately increasing NPL percentages as rates rise.

Dgunbiyi and Ihejirika (2016) conducted empirical research on the effects of interest rates on the profitability of deposit money banks in Nigeria. The research used data application for a period of thirteen years with multiple variables in nature. The research is very concerned with the bank dimension of the country in particular. The variables used in the research include the real interest rate, T-bill percentage, minimum discount rate, interchange rate, savings account rate, as well as inflation. The results of the research indicated that all the real rates of interest as well as the rates of savings for deposits have a considerable negative impact on the financial performance of money banks in Nigeria in terms of return on assets as well as return on equity.

Ozili (2019) highlighted the subtle dynamic of the effects of low-interest rate settings on non-performing loans (NPLs). Low-interest rate settings have the immediate effect of reducing NPLs as borrowers find it easier to meet their debt obligations due to reduced costs of borrowing. However, if low interest rates continue over an extended period, banks may be encouraged to engage in riskier lending habits. The sustained low interest rates induce a quest for yield, forcing banks to provide credit to fewer creditworthy customers or invest in riskier assets to maintain profit margins. This might result in an accumulation of risk in the financial system. Several research done during the last decade have reinforced this viewpoint. For example, Jiménez et al. (2014) discovered that low interest rates enhance the likelihood of lending to riskier enterprises. Similarly, Dell'Ariccia, Laeven, and Suarez (2017) found that prolonged periods of low interest rates can lead to the accumulation of financial imbalances, making the banking sector more sensitive to future interest rate hikes. When interest rates rise, these hazardous loans are more likely to default, causing an increase in NPL ratios. This delayed effect has the potential to weaken banks' long-term stability and financial performance, as they must deal with increasing levels of NPLs and associated credit losses.

2.2 The relationship between loan approval criteria and financial performance.

According to Kiptum (2019), low interest rates and long repayment periods are linked to more borrowing. Smith and Jones (2020) indicated that clear disclosures on loan terms and no hidden fees increase trust, leading to borrowing and financial performance. Tailored loan terms that match clients' needs increase client satisfaction, loyalty, and borrowing and financial performance.

Smith and Jones (2020) emphasized that clear disclosures on terms and no hidden fees increase trust and performance. Clear disclosures on terms and obligations increase client confidence and avoid surprises. This improves borrowing experiences and the lender-borrower bond.

Ahmad and Bashir (2018) indicated that personalized terms that match clients' needs increase satisfaction through custom solutions that meet clients' needs. Lee and Brown (2017) indicated that low fees/penalties increase loyalty and recommendations through perceptions of fairness. Favourable terms that match clients' needs increase client satisfaction.

According to Lee and Brown (2017), low fees/penalties increase perceptions of fairness and hence increase loyalty and recommendations due to the perception that the loans offered to clients are valuable and equitable. Similarly, both Ahmad and Bashir (2018) and Lee and Brown (2017) are in agreement that the terms and conditions of the loan are important in the development of a positive consumer relationship, especially if the banks are able to create competitive and fair loan terms that are customized to the needs of the individual, customers. This will not only be beneficial to the individual clients but will also be beneficial to the bank, especially in the development of high customer satisfaction, loyalty, and advocacy.

Block and Hirt (2016) described credit standards as the financial strength and creditworthiness threshold for good risks. They're central to lending, assessing repayment ability and risks via applications gathering key data. Credit evaluation hinges on default probability estimates, which stay steady. Competition limits term-setting, so managers handle analysis, collections, and monitoring. Credit decisions involve info gathering and analysis.

Ross, Wester field, and Jeff (2022) advised basing lending on credit data from others. Banks check payment histories for repayment odds, request statements for ratio analysis, and review credit reports for payer patterns. Tools identify defaulters.

Emery and Finnerty (2017) defined credit standards as lender criteria for creditworthiness, shaping loan NPV via repayment odds, amounts, returns, and terms. High defaults or delays cut NPV via time-value losses; collection costs add expenses. Lenders set standards to safeguard lending profits.

2.3 The correlation between loan terms and financial performance.

According to Kessler (2016), Harrison and Pauline (2015), it has been highlighted that it is important to identify factors that have an effect on customer satisfaction in order to effectively improve it. The key factors have been important to businesses since they determine customer delight, which in turn encourages customer loyalty through repeat business. The key factors help businesses to identify what to monitor in order to improve customer satisfaction.

One key factor has been identified to be the ease with which customers can access products or services provided by a business enterprise. It has been observed that customers appreciate convenient means to meet their needs.

Another key factor has been identified to be the terms and conditions that govern the use of products or services provided by businesses to their customers. The terms and conditions have been observed to have a significant effect on customer satisfaction since clear terms and conditions have been seen to improve customer satisfaction significantly.

Finally, quality of service or product remains a fundamental aspect of satisfaction. A quality product or service that meets or exceeds expectations can greatly increase satisfaction levels.

Zhang and Xi (2014) researched and found out how loan conditions, such as attractive interest rates and longer repayment periods, impact satisfaction. According to their study, these are fundamental aspects of satisfaction, especially in financial services. Borrowers feel content when they feel they are benefiting from a loan. This is because attractive interest rates reduce the total cost of a loan, making it easier for borrowers to feel satisfied. Borrowers feel they are benefiting because they feel they are not being overcharged. Borrowers feel satisfied when they feel they can afford a loan. This is because longer repayment periods reduce the monthly repayment costs, which can be a challenge for borrowers with tight repayment periods. By providing longer repayment periods, satisfaction increases because they feel they can afford a loan.

Kang, Heshmati, and Choi (2015) researched and found out how clear loan terms impact satisfaction. According to their study, clear loan terms sharply increase joy and trust because they do not include any additional costs. Transparency involves the provision of comprehensible information on interest rates, the schedule, fees, and penalties. Frontal lenders reduce confusion, thereby empowering borrowers to make informed decisions. This eradicates uncertainties in financial obligations. The borrowers feel empowered with confidence since they understand the loan agreements. The study identified hidden fees as the greatest source of dissatisfaction. Unexpected costs after the agreement create feelings of betrayal. However, transparent fee information evokes feelings of trust, respect, and strengthens the relationship between the lender and the borrower. Kang, Heshmati, and Choi (2015) identified that transparency sets the right expectations on the process, payments, and risks involved.

2.4 Intervening variables

2.4.1 Government policy

This is through monetary policy that is set by the central bank which influences financial performance by impacting lending rates and market liquidity. The bank of Uganda for example has maintained a stable or declining policy rate reflecting an improved inflation outlook. As of October-December the central bank rate was9.75% and the commercia lending rate stood at approximately 19%. (daily monitor, 2024). Monetary policy and lending rates changes have a significant casual effect on ROA of commercial banks as it directly influences the cost of borrowing for banks(researchgate,2025)

According to Uganda development bank annual report (2024) government initiatives guide lending towards priority sectors such as agriculture. This can influence the composition of commercial bank loan portfolios and exposure to specific sector risks. Similarly, regulatory policies affect banks operations in that excessive or high regulatory capital levels can potentially have a negative impact on profitability by limiting the funds available for profitable lending.

2.4.2 Inflation

This is the general increase in prices and fall in purchasing. The value of money affects bank performance directly through operating costs and indirectly through its effect on loan repayment capacity. Uganda has maintained inflation below the Bou's target of 5% and as of June 2024 the inflation rate was 3.9% and by July the annual inflation had increased to 4% (IMF elibrary,2024; ministry of finance, 2024). Reality shows that an economically and important negative relationship is found. This arises due to the matter of time frame, research methods used and other variables included in the study.

Current studies show how a weakening banking sector slows down economic growth highly. The economic policy indicates the nonlinear link between inflation and financial performance for example problems like informational frictions may occur if inflation overpasses the threshold. On that stage, financial performance can be crippled thus affecting resource allocation and the economic activity at large. Chege (2010) made studies on how inflation rates influenced the banks' financial performance in Kenya from 2000 to 2009.

2.5 literature gap

Alot of studies have been conducted on how credit policies influence commercial banks' financial performance. Although a lot of research conducted on this topic, there are some gaps that require more work of research. Mostly on the changing nature of credit rules and how they affect the banks in given time periods. Most of the previous research has been focusing on fixed and static policies and how they influence banks neglecting the ideal of how these banks tweak their credit strategies against the changing economic shifts on regulations. More so, less studies breakdown important parts of lending policies to see their impact on financial performance for example risk assessment methods, loan approval techniques and tools of inspecting which may could impact on what causes performance. Finally, there is a need for more comparative analysis in different economic environments even though some research talks about credit policy and financial performance in different aspects, head-to-head comparisons between developing and developed markets are rare giving less data and understanding on how the study shapes the policy outcomes.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the road map for gathering and analysing information. It covers the research design, sampling design, data sources, data collection methods, data instruments and data analysis techniques in detail.

3.1 Research design

The research design serves as the study's overall guiding every step from question to conclusion. For this research, a quantitative approach ideal is to be employed. This design aims at digging into how credit policies shape financial performance in Ugandan commercial banks and measuring their clear cut links.

3.2 Sampling design

3.2.1 Target population

The target group includes 55 respondents who include the working staff across loans, finance, accounts departments, active bank members and informed community members in Kampala city. They are chosen because they are perfect informants on credit policies used. As Borg and Crall (2009) put it, the target population means the full set of individuals or events to which we can confidently extend our findings.

Table 3.2.2: Showing study population

Category	Population
Finance department	15
Accounts department	10
Loans department	10
Bank members	10
Community members	10
Total	55

3.2.3 Sampling technique

This study involves the use of a simple random sampling technique in the way that the study also involved some form of random selection. This sampling technique is used because it gives an equal chance in that every one of the 55 respondents get equal chance of being picked thus reducing on the chance of the researcher favouritism. This technique is straightforward, budget friendly, helps the researcher to confidently apply findings to the whole group and way less burden than other methods

3.2.3 Sample size

Sample size refers to the number of units or folks or people where researcher wants to gather or tap for insights or information or data **(Evans et al, 2000).** For this study, the researcher is using Yamane's formula to find the sample size which is n=N/(1+N(e)2

Where N is the total number of respondents and "e" is the confidence level.

$$\frac{N}{1+N(e)2}$$

$$\frac{55}{1+55(0.05)2}$$

=48 respondents

Table 3.2.4: Showing Category, Population, Sample Size and Sampling Techniques

Category	**Population**	**Sample size**	**Sampling technique**
Finance department	15	14	Simple random
Accounts department	10	8	Simple random
Loans department	10	9	Simple random
Bank members	10	9	Random sampling
Community members	10	9	Simple random
Total	55	48	

3.3 Data sources

3.3.1 Primary data

The researcher is to use primary data as a source of data. According to **Kothari (2000)**, primary data means first hand facts gathered straight from the source; the information is original in nature that is it is not filtered. In simple terms its data directly from the respondent. This data is collected through questionnaires handed to respondents and direct conversations written on paper.

The advantages of primary data are

i) Primary data strongly reliable since its collected by the researcher.

ii) It's relevant and accurate for the exact questions.

iii) It is current, providing data reflecting to today's reality.

iv) Primary data is tailor made where the researcher controls the design, sample and the quality from start to end.

3.3.2 Secondary data

The researcher is to use secondary data as a source of data. According to Kohen Ronald (2007), secondary data is the shortcut where information is already out in the public and collected by other people or researchers. The data was obtained from the bank's annual reports, published journals and articles, and reliable online sources.

The advantages of secondary data are.

a) Its cheaper and faster than primary data.
b) Secondary data saves time, effort and budget letting the researcher focus on what matters.

3.4 Data collection methods

3.4.1 Primary Data Collection

According to **Kothari (2000),** primary data self administered questionnaires within depth interviews for the full picture that is to say; data that is real in nature. Primary data will be collected through self-administered questionnaires and interviews.

By the help of questionnaires, this approach handles quantitative data, resulting into a clear understanding of the context of the study. The *Q* of quantitative and qualitative data allowed for verification data sources, cross-validation, and deeper exploration of the research questions, contributing to the overall validity and reliability of the study's findings.

3.4.1.1 Questionnaires

Self-administered questionnaires are to be distributed to a number of staff at pearl bank, main branch and some informed community members via purposive and simple random sampling approaches. The questionnaires are designed to assess staff on levels of credit risk management, financial performance, and other relevant information. The questionnaires are composed of close ended. The use of closed-ended question like Likert scale items, for easy number crunching and pattern spotting.

Furthermore, open-ended questions are for real details on real world challenges and wins in credit policy and performance. Open-ended questions on the questionnaire allowed staff to elaborate on their experiences, challenges, and perceptions regarding credit risk management and financial performance. These qualitative insights give statistics and the human side perfectly for Uganda's commercial banking scene.

3.5 Data Collection tools

In this part, the researcher describes the tools he or she is going to use while collecting data of the study. Each collection tool was designed to collect specific information on different objectives from different respondents related to credit policy and the Uganda's commercial banks financial performance

3.5.1 Self-Administered Questionnaires.

These self-administered questionnaires are to be used in collecting data using different tools that helped in primary data collection. Each tool of information collection was designed to obtain, compare and analyse, gather data about different mechanisms that influence commercial banks financial performance. It has multiple parts, each of which focuses on different aspects of the research objectives. The questionnaire was administered to a sample of employees of the main branch of the study, which used purposive and simple random sampling methods.

The questions in the questionnaire focus on the background(biodata) information from respondents and the other part of questions focuses on specific objectives of the research study. They are to hit departmental heads in different sections such as loans, finance at the bank and this was via purposive and random selected methods.

3.6 Data Analysis

Data analysis basically turns raw responses into clear insights (Hyndman, 2008). This includes coding, editing, data entry, and supervising the whole data processing. The data was presented in the form of tables, graphs, and charts for better clarity. This helped in the easy evaluation of the data.

3.7 Ethical considerations

Ethics are put first as everyone gets clear information and signs voluntarily and responses stay confidential, locked down tight. The study is also cleared by the university's ethics board clean, fair and square.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter shows the results of the study and its objectives. The results of the study are presented as follows.

4.1Response rate

The rate of response for this research study was a 98% was regarded to be high. A high response rate shows or portrays a more accurate research results as suggested by Amin (2005).

Table 4:1 Rate of response

Number of distributed questionnaires to respondents	48
Number of questionnaires returned back from respondents	47
Number of questionnaires that were not received back from respondents	1

Source: primary data 2025

$$\text{Response rate} = \frac{\text{Received questionnaires}}{\text{Total questionnaires distributed}} = \frac{47}{48} * 100 = 98\%$$

The rate of response for this research was 98% was high. A high response rate shows or portrays a more accurate research results as suggested by Amin (2005)

This section portrays the number of people who responded to the study out of those who the researcher had targeted and also the characteristics of the respondents basing on their age, education level occupation as of date and term of service. This information provided was based on the questionnaires distributed.

4.2 Biographic characteristics

Table 4:2 Respondent's gender

This table represents the way respondents were distributed based on their gender and the way they participated in the study context.

Item	Frequency	Percentage
Male	25	53.2
female	22	46.8
Total	47	100

Source: primary data 2025

The table above shows that 53.2% were male respondents and 46.8% were female respondents giving a total of respondents in the study.

Table 4:3: Age group of respondents.

This table presents the age groups of respondents that were involved in the research study including the percentage and frequency of respondents in different age groups.

Item	Frequency	Percentage
20-31 years	40	85.1
32-41 years	5	10.6
42-51 years	2	4.3
Total	47	100

Source: primary data 2025

In the above the above table 88.5% of respondents are aged 20-31 years, 10.6% were in the age of 32-41 years and 4.3% were in the range of 42-51 years.

Table 4:4 respondent's marital status

This table includes frequencies and percentages of respondents in different marital statuses observed in sample group. The data presents the marital status distribution amongst different participants

Item	Frequency	percentage
Married	15	31.9

Widower	1	2.1
Single	29	61.7
Divorced	2	4.3
Total	47	100

Source: primary data 2025

In table 4:4 above, 31.9% of respondents were married,61.7 were single, 4.3% were divorced and 2.1% widows. This implies that majority of the respondents were single.

Table 4:5 Education level of respondents

Item (level)	**Frequency**	**Percentage**
Masters	2	4.3
Bachelors	37	78.7
Diploma	5	10.6
certificate	3	6.4
Total	47	100

Source: primary data.2025

In the above table 6.4% were at certificate level, 78.7% were at bachelor's level,4.3% were at master's level and 6.4% at diploma level.

Table 4:6 Period respondents have spent in their departments

The table below represents time spent by each respondent in different departments. It groups the respondent's according to how long they have been in those departments.

Time period (years)	**Frequency**	**Percentage**
0-4	34	72.3
5-9	5	10.6
10-14	8	17.0
Total	47	100

Source: primary data 2025

Table 4:6 shows 17.0% respondents had been in the bank for 10-14 years, 10.6% for 5-9 years and lastly 72.3% for 4 years.

4.3 The impact of interest policies on financial performance of commercial banks

The table 4.7 below shows the findings about the impact of interest rate policies on financial performance of banks in Uganda. These findings are important in understanding how commercial banks handle interest rate policies and how they influence financial performance in the long run. This information is generated from primary data sources giving direct insights from Ugandan banks themselves.

Aspects	**Average score**	**Standard deviation**
High interest rates widen the net interest margin by boosting the spread between loan income and deposit costs.	3.42	1.15
Increased interest rates reduce borrowing from customers thus lowering loan volumes and revenue from interests.	3.80	1.504
Reduced interest rates stimulate borrowing hence leading to an increase in loan volumes as well as interest income for banks.	3.21	1.6
Raising interest rate on deposits attract and retain customers hence impacting the bank's interest expenses	3.15	1.424
High interest rates affect demand for refinancing and other services thus reducing non-interest income	2.81	1.50
Interest rate fluctuations change the volume of loans and associated interest income due to a change in the behaviour of customers.	3.93	1.40

Source: Primary data 2025

The above table shows the different aspects of interest rate policies on financial performance of commercial banks as indicated in the case study. Average scores and standard deviation are given for each aspect basing on how respondents perceived it.

According to this data, there's a shared opinion amongst respondents on the aspect of raising interest rates attract and retain customers and reduced interest rates stimulate borrowing leading to an increase in loan volumes where respondents with the same aspects received average scores (3.15, 3.21) implying that customers are not fully aware.

Respondents acknowledge that increased interest rate reduce borrowing by customers and entities hence reducing the loan volumes and generated income from loans whereas interest rate fluctuations change the volume of loans and interest associated due t change in behaviour of consumers (average score 3.80, 3.93) implying that there was an agreement of the respondents to that statement. These results show a significant role of interest rate policies on financial performance of commercial banks.

Additionally, the information shows that high interest rate affect demand for refinancing and other services thus reducing non- interest income (average score 2.81, 1.50) indicating that there is less emphasis on this statement amongst respondents.

Finally, respondents find out the use of high interest rates widen the net margin by boosting the spread between loan income and deposits. (average score 3.42, 1.15)

In summary, the information underscores the impact of higher interest rates reducing the refinancing demand and other sensitive services hence reducing the fee-based income. Although, the variable opinions indicated by the standard deviations suggest that regardless of a widespread recognition of the significance of high interest rates causes a decrease in the market value of the available fixed income investments resulting into unrealised losses and may vary among respondents.

4.4 The relationship between loan approval criteria and financial performance of commercial banks.

The table below represents key findings about the relationship between loan approval criteria and financial performance. It also outlines different statements regarding how loan approval criteria and financial performance have influenced the banks performance and gives statistical measures such as average and standard deviation.

Statement	**Average**	**Standard deviation**
Strict credit checks help to prevent bad loans that reduce the commercial banks profitability.	3.69	1.00

Stringent debt to equity ratio thresholds in loan approvals correlate with improved return on assets	3.58	0.957
Collateral requirements in loan approval process impact on provisions for bad debts and banks net interest margins.	3.36	1.144
Eligibility criteria like credit history, liquidity ratios enhance bank's stability metrics.	3.52	0.921
Evolving regulatory standards play a role in moderating the relationship between loan approval and bank's risk adjusted returns	3.49	1.099

Source: Primary data 2025

Data in table 4.8 above presents the relationship between loan approval criteria and financial performance in commercial banks. The average scores and standard deviation provide thoughts into the respondents' mood towards the different statements related to loan approval criteria and performance.

The findings suggest that loan approval criteria are considered beneficial to commercial banks in Uganda. The highest average score (3.69, 1.00 Std) on the statement indicates that the respondents agreed that loan approval criteria strongly impact the performance of banks mostly their liquidity position, thus leading to an increased income or revenue and hence financial performance.

Respondents also agree (average score 3.58,0.957) that stringent debt to equity ratio thresholds in loan approval correlate with improved returns on assets. This highlights the quantitative impacts of loan approval criteria on financial performance of banks.

Moreso, the information in the table indicates eligibility criteria which enhances banks stability metrics (3.52, 0.921) meaning that respondents are not well aware. This therefore indicates the role of borrower and market factors on financial performance of commercial banks.

Even though, there are areas where the perceived impact on loan approval criteria on financial performance of commercial banks seam to be less pronounced. For example, the statement of collateral requirement in loan approval process impact provisions for bad debts and banks net profit margins with an average score and standard deviation of (3.36, 1.144), implying that there was a less agreement amongst respondents and they disagree with the statement. In the same way, the topic of evolving regulatory standards has a role in moderating the relationship between and bank's adjusted returns with an average score and standard deviation of (3.49, 1.099), implying there is a lower understanding on this aspect.

In short terms, while there's a generally positive suggestion of the impact of loan approval criteria and financial performance of commercial banks, they vary in degree of agreement amongst different statements. Interpreting these variations and ensuring their effectiveness in implementation of loan approval criteria and lending practices could furthermore impact the stability and financial performance of the commercial banks.

4.5. the correlation between loan terms on financial performance of commercial banks.

The information in the table 4.9 below presents the correlation of loan terms on financial performance of commercial banks. Every aspect is rated in terms of average and standard deviation presenting data according to respondents' perception of loan terms on financial performance

ASPECT	**Average**	**Standard deviation**
Flexible loan tenures that align with customers' financial planning improve satisfaction. Longer tenures reduce monthly payments, making loans more manageable	3.70	1.406
Flexible loan terms that have options for temporary loan restructuring have positive long-term impact on returns on assets by salvaging potentially defaulting clients	4.02	1.202
Loan terms that a clearly defined regarding collateral maintenance and valuation throughout the life of the loan impact the banks return on equity	4.00	1.345
Policies favouring shorter average loan tenors enhance the bank's return on asset by improving asset turn over	3.80	1.302
A loan term policy mandating high loan repayment frequency significantly correlates with higher Returns on Equity	3.50	1.021

Source: Primary data 2025

The table above indicates the correlation of loan terms on financial performance of commercial banks. Every aspect is rated in terms of average and standard deviation presenting data according to respondents' perception of loan terms on financial performance.

In the first aspect, there is a suggestion that flexible loan tenures match with consumers plan on their finances and long tenures reduce payments per month making it easy to manage loans with an average of 3.70 a standard deviation of 1.406. this shows an agreement of respondents regarding loan terms and financial performance of banks.

The second and third aspects have an average of 4.02 and 4.00 respectively and a standard deviation of 1.202. this implies that respondents highly agree regarding the importance of effective communication on loan terms, fees and changes within the loan period. This builds trust amongst customers hence increase in financial performance.

The third aspect on the other hand, has a relatively high average of 4.00 with a standard deviation of 1.345 which is moderate. This shows that respondents accept on the aspect of direct impact of loan terms that a clearly defined regarding collateral maintenance and valuation throughout the life of the loan impact the banks return on equity.

The slight increase in standard deviation indicates a bigger gap of opinions and expertise amongst respondents implying that some of them may not recognize fully the immediate link between loan terms and financial performance of commercial banks in Uganda. The last statement has lower average of 3.50 presenting a less understanding amongst respondents basing on a loan term policy mandating high loan repayment frequency significantly correlates with higher Returns on Equity. The aspect has a lower standard deviation meaning that some respondents' responses and expertise vary despite of the whole agreement on their performance.

In summary, as commercial banks try to recognise the correlation between loan term and financial performance levels, there's a less understanding on its immediate effect on profitability.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the findings, conclusions, and recommendations of the study on credit policy and the financial performance of commercial banks. The chapter is organized with an overview of the findings related to the objectives of the study, followed by the discussion, conclusion, and suggestion related to the objectives of the study.

5.2 Discussion of key findings

5.2.1 The Impact of interest rate policies on financial performance of commercial banks

The findings on the impact of commercial banks' interest rate policies on their financial performance mirror other research works, which pointed to the significant need for proper credit policy practices. For example, Attom (2016) and Ademola, Adesemowo, Oyedele, and Adesemowo (2018) found that poor interest rate policies often characterized commercial banks, which affected their profitability, liquidity, and financial planning. This is similar to the findings, which indicated that interest rate policies' influence on commercial banks' financial performance had high mean scores, similar to other research works, although the findings on record-keeping for decisions had lower mean scores, indicating the awareness-execution gap, which is similar to Attom (2016) and Ademola et al. Abdul-Rahamon and Adejare (2014) provided empirical evidence on the positive relationship between interest rate policies and commercial banks' financial performance, emphasizing their importance, while Kasim, Zubeiru, and Mtala (2017) provided empirical evidence of the existence of proper interest rate policies among commercial banks..

Gul et al. (2011) and Nyabwanga et al. (2010) gave a general overview regarding interest rate policies, such as monetary policies that involve quantitative easing measures. The use of both literature and data analysis emphasizes the negative impact that high interest rates have on borrowing, hence a decrease in the amount of loans and interest earned, which in turn affects the performance of commercial banks, as revealed in the two reviews and in this analysis.

5.2.2 The relationship between loan approval criteria and the financial performance of commercial banks

The research results support the literature points, providing further clarity on the relationship between loan approval criteria and the financial performance of commercial banks. Hamza, Mutala, and Antwi (2013) observed that a number of factors in the loan approval criteria failed to consider asset quality because of a lack of understanding of its urgency or importance, a finding that is similar to the current research results. The research, however, has provided further understanding on the varying levels of understanding, a finding that is in agreement with Kemp et al. (2005) and Attom (2014) on the knowledge level and its impact on performance and the level of credit risks experienced. Nyabwanga et al. (2014) and Gul et al. (2017) researched the impact of the loan approval process on the financial performance of commercial banks, failing to cover asset quality analysis, a gap that is filled in the current research, providing empirical evidence on the relationship between the two, a finding that is in agreement with Kemp et al. (2018) and Hamza, Mutala, and Antwi (2017).

However, the importance of approval factors such as the debt-income ratio, employment history, and collateral was emphasized by Nyabwanga et al. (2012) and Gul et al. (2013). The present research highlights the importance of criteria in the control of cash flow, thus improving profitability and health, as seen in the positive relationship between working capital strategies and profits by Gul et al. (2013), albeit through different avenues.

5.2.3 The correlation between loan terms and financial performance in commercial banks

The respondents generally agreed to the correlation between loan terms and the financial performance of commercial banks, as seen in the literature on the role of credit policy in the same context. Shorter debtor periods mean improved cash flows for withdrawals and investments (Garcia, Teruel, & Martinez-Solano, 2001). The agreement of the respondents to the importance of optimizing working capital through the management of receivables also supports the literature that improved profits can be achieved through fewer receivables days (Deloof, 2003; Tirngo, 2013). Though respondent agreement regarding the direct satisfaction link with loan terms was tempered, literature supported flexibility in tenures to meet customer plans with longer tenures reducing monthly payment burdens (Lazaridis & Tryfonidis, 2006; Mathuva, 2019). Respondents generally agreed regarding benefits in reducing external funding requirements and defaults with timely collections, similar to payment/recovery periods' positive viability impact in literature (Nzioki et al., 2014; Makori and Jagongo, 2012).

Respondents appreciated accurate and timely information regarding receivables for reporting and analysis, similar to supporting literature regarding receivables management financial importance.

5.3 Conclusion

As Elderd (1996) noted, credit affects performance dually: banks gain interest income, while borrowers get financial support—but this hinges on innovative credit policies and branch safeguards.

The study's bank showed strong performance from credit control in a standard risk monitoring process before client lending. Findings confirm Ugandan commercial banks apply full credit risk controls. A significant positive link exists between credit policy elements and Equity Bank's performance, indicating policy management strongly shapes loan portfolio quality and bank finances.

Collection methods span reminder letters, visits, agencies, calls, and legal action to speed overdue payments.

Per objectives, the bank uses all credit policy aspects to meet obligations, though policy influences performance. Unpaid loans incur carrying costs as credit risks with linked expenses, raising capital costs amid prolonged risks.

5.4 Recommendations

Banks must understand their investment portfolio and risk for intelligent decisions, focusing on internal factors they can control. Banks must select clients and management for portfolio optimization.

Client evaluation must include full credit policy execution, such as information, performance evaluation, visits, rule execution, appropriate loans, and close supervision, to enhance bank performance.

Banks must offer information on provision, create commercial units, enhance security, and fund viable projects. Banks must avoid political loans, require visits to clients, create monitoring units, and verify files and paperwork before disbursing loans to protect interests in cases of defaults. Banks must maintain loan documents, security registrations, and liens impeccably and update files with new information on clients. Banks must disburse credit after executing protocols and then monitor closely to avoid facility deterioration.

5.4 Areas for further study

To reconnoitre the link between credit strategies and NPL management, with a particular focus on certain sectors such as SMEs or agriculture

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