THE EFFECT OF CREDIT RISK MANAGEMENT ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA: A CASE STUDY OF CENTENARY BANK, KAPCHORWA DISTRICT

PROSCOVIA YAPTULEL

M23B33/076

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

March, 2026

UGANDA CHRISTIAN UNIVERSITY
A Centre of Excellence in the Heart of Africa

DECLARATION

I affirm that, to the best of my knowledge, the work is entirely mine, with no evidence of plagiarism or any other unethical conduct. The only previously published material was used solely for reference purposes.

Signature..

YAPTULEL PROSCOVIA

Date.....04/03/26.....

APPROVAL

This is to certify that this research report was carried out under my supervision and is now ready for submission to Uganda Christian University with my approval.

Name: MR. KISENYI VICENT

(ACADEMIC SUPERVISOR)

Sign..

Date......6/3/2026......

DEDICATION

I dedicate this work to my dearest family and fiancée who have shown heroic support throughout my academic struggle, to the staff of Centenary bank, kapchorwa, and to my friends who have been a great inspiration in my life. I want to thank them for the support, encouragement and advice to take up this course and laying a foundation for my career.

I also dedicate this work to my supervisor Mr. KISENYI VINCENT who enabled and guided me during the course of my research.

ACKNOWLEDGEMENT

The greatest honor goes to the Almighty God who has brought me this far and the further He is taking me. With great thanks, I wish to acknowledge all my family members, my fiancée and friends for believing in me and for their career guidance, mental, spiritual, physical and financial support. I will forever remain indebted to them.

I also extend my sincere appreciation to my supervisor and former Dean of School of Business Mr. Kisenyi Vincent for his words of encouragement and for all the support he has rendered me during the entire process of writing this paper.

TABLE OF CONTENT

ABSTRACT

The study investigated the effect of credit risk management on the financial performance of commercial banks in Uganda, a case study of Centenary bank, Kapchorwa. The general objective of the study was to examine the effect of credit risk management on financial performance of commercial banks in Uganda, it was further guided by three other objectives that is to say ; To evaluate how the credit policies adopted by commercial banks in Uganda influence their overall financial performance, to analyze the effect of credit risk management practices on the financial health of commercial banks, to assess the relationship between credit analysis and financial performance.

A population of 23 respondents from Centenary bank, Kapchorwa was used. A simple random sampling technique was used and all the members of the finite population were given an equal chance to be included in the sample since the target respondents were either engaged or had an idea about the effect of credit risk management on financial performance of commercial banks, these were in a better position to respond to the research questions appropriately. This removed the possible bias that may have arisen as the result of research favoring some respondents. Data was collected using Questionnaires as a data collection instrument.

CHAPTER ONE

INTRODUCTION

1.0 Introduction.

The study investigates the effect of credit risk management on the financial performance of commercial banks in Uganda, a case study of Centenary bank, Kapchorwa district. This chapter consists of the background of the study, the objective of the study, statement of the problem, research questions, significance of the study and conceptual framework.

1.1 Background to the Study

Credit risk management is a central function of commercial banks and a key determinant of financial performance. According to Saunders 2011, credit risk is the possibility of a loss resulting from a borrower's failure to repay loans or meet contractual obligations. Weak credit risk management is the leading cause of bank failures and financial crisis, converting the bank's core income generating activity into its greatest liability. Ineffective credit risk management exposes commercial banks to higher non-performing loans and defaults, reduced interest income, higher borrowing costs and lower profitability due to higher operating expenses.

The banking sector in Uganda regulated by the Bank of Uganda has showed increased growth despite it facing challenges arising from credit risk management. To curb these challenges, banks have adopted different ways to strengthen their capacities such as implementing the 5 C's which are regarded as the 5C's of credit used by lenders to assess borrower risk, i.e. Character, capacity, capital, collateral and conditions. But even with these strategies, credit risk still remains one of the most significant challenges facing the banking sector. This has therefore led to their financial instability due to loan defaults. Uganda has 26 licensed commercial banks up from 24 in 2017, reflecting steady expansion and diversification in the sector, Bank of Uganda, 2025. These commercial banks in Uganda include, ABC Capital Bank Limited, ABSA Bank Uganda, Bank of Baroda, Bank of Africa Uganda Limited, Cairo International Bank Limited, Centenary Bank, DFCU Bank, Diamond Trust Bank Uganda Limited, Eco bank Uganda Limited, Equity

Bank, Exim Bank, Guaranty Trust Bank, Housing Finance Bank, KCB Bank Uganda Limited, NC Bank Uganda Limited, Orient Bank, Pearl Bank, Stanbic Bank Uganda Limited, Standard Chartered Bank Uganda, Tropical Bank, UBA Bank, and United Bank for Africa Uganda Limited, Bank Of Uganda as of March 2017.

Centenary Bank, established in 1983, it started as a credit trust of the Uganda National Lay Apostolate. Its operations started in 1985 with two main purposes; serving the rural poor and making a meaningful contribution to the socio-economic development of Uganda. In 1993, It transitioned to Centenary Rural Development Bank Limited and were licensed as a full-service commercial bank. Today, it is Uganda's leading Microfinance Bank with an asset base of UGX 8.496 trillion and serving 3 million customers through 83 branches, 219 ATMs, over 8,758 Agents, and several other digital channels including CenteMobile banking, and CenteOnline banking, CenteVisa debit & prepaid cards, and Mastercard Platinum debit card. The bank has a strong focus on financial inclusion particularly through its extensive branch network and digital channels. While it provides such financial inclusion, the bank is exposed to high credit risk. This is because its customer base consists of microfinance customers such as low income earners, entrepreneurs and small business owners which lead to such rise of risks and therefore can lead to non-performing loans. Though it experiences high risks, the bank has managed its credit risk effectively with the NPL ratio dropping from 3.4% in 2022 to 2.7% in 2023. This has been achieved through strict loan approval processes and decentralized limits across branches.

The financial performance of commercial banks are assessed based on profitability, liquidity, asset quality and capital adequacy with the key metrics such as Return on Assets (ROA) and Return on Equity(ROE) as mandated by the Bank of Uganda 2019. According to a study by Kamukama and Tumwine (2017), they suggest that, to improve financial performance measured by ROA and ROE, appropriate credit risk management has to be adhered. Effective credit risk management enhances financial performance through improving asset quality, reducing loan losses and minimizing provisioning costs. Therefore, the study focuses on the effect of credit risk management on the financial performance of commercial banks specifically centenary bank in Kapchorwa. This is because the environment carries microfinance customers that are potential high risk takers being that most of them are seasonal causing an impact on the financial performance of the bank.

1.2 Statement of the Problem.

Although commercial banks have implemented different strategies to minimize credit risk, it still remains a challenge to them. Bank of Uganda supervision reports indicate that the ratio of non-performing loans in the banking sector has remained volatile and, in some periods, exceeded the recommended prudential threshold of 5 percent, Bank of Uganda, (2023). High levels of non-performing loans adversely affect banks' profitability through increased loan loss provisions, reduced interest income, and higher recovery and administrative costs.

In risk assessment techniques, the determination of each individual loan or borrower has a primary role in the management and reduction of the credit risk. Management of the general loan portfolio can only be done after determining the risk represented by each individual borrower and each single credit service. It refers to analyzing the qualitative and quantitative indicators of the borrower's economic state. It is within the scope of credit risk assessment. According to Rodina et al, 2023, they emphasize that banks must prevent negative impacts by systematically assessing and analyzing the factors that affect lending, such as internal factors, to ensure a secure future. A comprehensive and structured analysis of the various risk factors that attend the granting of some loan or other, coupled with the assessment of these factors, will let the bank be conscious of the arising negative impact of their convergence in credit risk management and avoid a repeated negative impact of their convergence on the results of the future activities of the bank.

Centenary Bank Kapchorwa branch operates in a rural economic environment where borrowers' incomes are largely dependent on agriculture and small-scale trade. These sectors are highly vulnerable to climatic variability, market price fluctuations, pests and diseases, and changes in input costs. As a result, borrowers may experience unstable cash flows, increasing the likelihood of loan default when credit risk is not adequately assessed and managed. Branch records and management reports have indicated cases of delayed loan repayments, loan restructuring, and increased recovery efforts, which may negatively affect the financial performance of the bank.

Although Centenary Bank has established institution-wide credit policies and risk management frameworks, credit risk still remains a threat to the financial performance of commercial banks.

Particularly in rural settings such as Kapchorwa District, one may wonder how these policies have helped curb the risks with its existing challenges. Therefore, this study seeks to examine the effect of credit risk management on the financial performance of Centenary Bank Kapchorwa branch.

1.3 Objectives of the Study.

The objective of study is to assess the effect of credit risk management on the financial performance of commercial banks in Uganda.

1.4 Specific Objectives

1. To examine the effect of credit appraisal practices on the financial performance of commercial banks.
2. To assess the influence of credit monitoring and control on the financial performance of commercial banks.
3. To determine the effect of loan recovery management on the financial performance of commercial.

1.5 Research Questions

1. What is the effect of credit appraisal practices on the financial performance of commercial banks?
2. How does credit monitoring and control influence the financial performance of commercial banks?
3. What is the effect of loan recovery management on the financial performance of commercial banks?

1.6 Scope of the Study

1.6.1 Subject scope.

The study scope focused on the effect of credit risk management on the financial performance of commercial banks. The content scope focuses on credit risk management practices, specifically credit appraisal, credit monitoring and control, and loan recovery management, and their effect on financial performance measured using profitability and asset quality indicators.

1.6.2 Geographical scope.

The study is confined to Centenary Bank Kapchorwa branch. This was chosen because Kapchorwa district is a significant location with a notable presence of banking activities, provides a relevant context for examining credit risk management practices and their impact on financial performance and also suitable location for the researcher.

1.7 Significance of the Study.

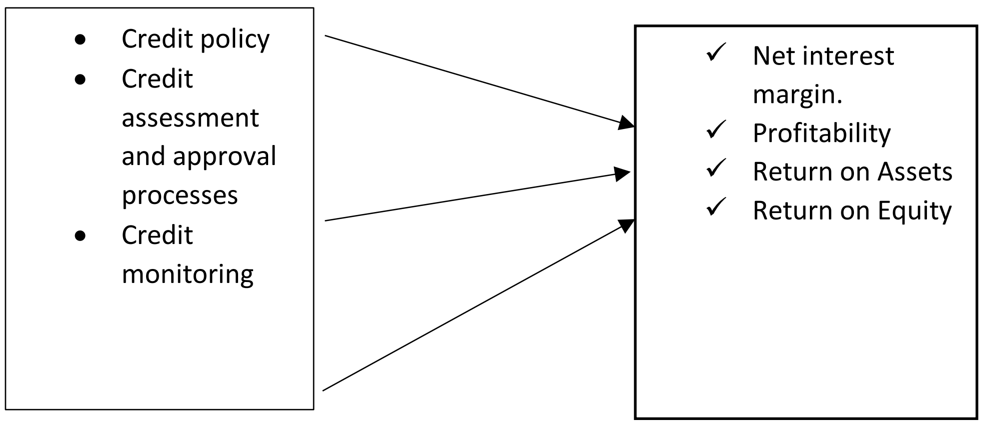
The study has the following significance;

i. The research will provide valuable insights to enhance credit risk management strategies which lead to lower non- performing loan ratios hence improving financial performance stability.
ii. The study will offer researchers a rich literature basis on credit risk management and financial performance contributing to a wider body of knowledge in risk management.
iii. The research will provide potential areas of further study which will advance theoretical and practical knowledge in the sector.
iv. The research study will also aid in promoting transparency in banking institutions which will eventually lead to improved economic growth and development.

1.8 Conceptual framework.

Independent variable Dependent variable.

Credit risk management financial performance



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews existing literature on the effect of credit risk management on the financial performance of commercial banks. The researcher started with credit risk theory, then defined credit risk management and discussed the main objectives of study and identified research gaps.

Credit risk theory.

Asymmetric information theory.

Asymmetric information refers to a situation in which one of the parties involved in a market transaction has more information than the other which reduces efficiency in resource allocation. It was developed in the 1970's by Akerlof, Spence and Stiglitz which describes that in credit markets, borrowers possess more information about their financial health than lenders. These lead to the major problems, adverse selection and moral hazard. Adverse selection occurs before a transaction that is to say before a loan is issued to a borrower and it usually comes with giving to a high risk borrower that may cause a market failure. Moral hazard occurs after a transaction when the borrower changes the behavior knowing that the bank bears the consequences. This information theory forms a basis on the relationship between credit risk management and financial performance of commercial banks.

In a study by Ioannidou, Pvanini and Peng (2022), they argue that collateral in bank lending acts as a critical mechanism to mitigate adverse selection and moral hazard arising from asymmetric information, this research provides evidence that collateral mitigates adverse selection and oral hazard. Bridhi and Mussoni (2025) also argue that asymmetric information is a defining challenge in bankinh that causes adverse selection and moral hazard, they emphasize that credit policies should adopt a forward-looking approach and also suggest that relational capital built through long-term interactions provides banks with valuable information that helps bridge the information gap allow them manage risks better.

Asymmetric information theory explains the underlying risks in lending and the importance of credit risk management in enhancing financial performance of commercial banks.

2.1 Credit Risk Management

Credit risk management is the process of identifying, assessing and mitigating the risk of financial loss when a borrower fails to meet debt obligations. It's a cornerstone of modern risk management in banking ensuring financial institutions lend responsibly while protecting capital. A strong credit risk management framework helps banks minimize non-performing loans and maintain portfolio quality. According to Saunders and Cornett 2018, Lower short term interest rates cause higher net margins, since a decrease in interest rates affects short-term bank liabilities, such as demand and savings, deposits, immediately, while lower interest rates are only applied on new loans. Effective credit risk management ensures profitability and sustained liquidity within shot term goals. With growing market complexity, technology and data analytics have become crucial in enhancing credit scoring, identifying early signs of default and improving risk evaluation. Digital tools also support loan automation, real time monitoring, and financial risk forecasting as studied by Addy et Al, 2024. Continuous monitoring should be done once credit is extended to detect early signs of default.

According to a study by Odawo, Makokha and Namusonge (2019). Poor credit risk strategy, inefficient risk structure, poor credit ratio system, supervision and control savings, banks face enormous challenges in maximizing wealth for their shareholders. Banka must maintain credit risk exposure within acceptable parameters to maximize risk adjusted returns. Effective credit risk management also requires robust frameworks including credit scoring models and adequate liquidity buffers.

The Bank of Uganda (2019), emphasized strengthening credit risk management to address rising non-performing loans (NPLs) and enhance financial stability in the sector. In the bank of Uganda annual report, they highlighted the challenges with deteriorating portfolio quality urging financial institutions to improve credit risk management practices to mitigate rising NPLs.

Commercial banks have therefore developed ways and strategies to mitigate and curb credit risks by implementing credit appraisals such as the 5C's to evaluate borrower credit worthiness before approving loans hence reducing on NPLs. They have also set strict credit limits to borrowers especially to high risk borrowers, commercial banks require collateral before reimbursing a loan to a borrower such as assets which include property to reduce on default which could result into loss, diversifying loan portfolios across different sectors and made use of platforms such as credit bureaus which help them with the credit history of the borrower.

Centenary bank holding one of its branches particularly in Kapchorwa district faces credit risk challenges arising from credit risk management. In as far as it promotes financial inclusion in the area, it's exposed to an environment that has microfinance customers whose businesses are seasonal. Most of the customers depend on agriculture which agriculture is seasonal and therefore their incomes are always fluctuating with the seasons with limited financial literacy. To reduce these risks arising from the economic shocks and also limited financial literacy, the bank has employed a combination of credit assessment tools used to assess the potential customers. Tumwine, Mbabazi and Kasekende (2021) argue that credit risk management is dynamic and an interconnected process rather than a linear sequential one. They emphasize that commercial banks must move beyond standard procedures to a more holistic approach that highlights continuous monitoring and restructuring.

According to Alex & Kazaara, 2023, credit is the largest area of business for commercial banks. This therefore requires immediate response and if not resolved in time, it may result into a financial loss I the bank hence leading to the collapse of the bank. He further stressed the need to move to context- specific strategies from generic models particularly in agriculture and stressed the role of technology.

2.2 Credit Appraisal and Financial Performance of Commercial Banks

Credit appraisal also known as credit assessment is a comprehensive evaluation of borrowers credit worthiness and possible risks associated with increasing their credit limit. The main purpose of following credit appraisal technique is determining the borrower's potential to repay their loan. This credit analysis process explains the borrower's financial standing, including assets, income, credit history and loan repayment. Effective credit appraisal prevents the risk associated loans provided to projects, establishes assurance among corporate banks and reduces the likelihood of non-performing loans.

According to Saunders, Cornett and McGraw (2020), they found that weak credit appraisal practices are the primary causes of high performing loans in banks and they are often compounded by broader issues such as ineffective credit policies. Banks that fail to properly assess borrower capacity and properly value collateral experience higher default rates and declined financial performance. While banks with strong credit appraisal have stable cash flows and are able to lend to borrowers hence leading to improved returns on assets and equity. Similarly, a research by Rose & Hudgins (2018), credit appraisal is vital and supports liquidity management by ensuring consistent loan repayments which strengthen cash inflows and enable banks to meet their short-term financial goals. On the other hand, according to Basel Committee on banking supervision (2019), poor credit appraisal is a failure in bank positions which increases financial vulnerability.

Bezemer et al. (2023) argues that since 1980's, credit appraisal has shifted away from productive investment toward asset based lending, causing micro financial slippage. This reflects that the weakness of modern credit appraisal are not as a technical failure to assess default risk but as a structural, strategic failure to direct capital towards productive economic growth. This therefore results into increased costs and reduced profitability in commercial banks.

Credit appraisal is more challenging in rural areas because the micro finance customers in this areas have limited financial records, inadequate financial knowledge and the majority rely on small scale businesses that are usually seasonal and therefore their incomes are always fluctuating. Studies by Ssekiziyivu (2020) indicate that, inadequate appraisal leads to higher default rates as collateral, repayment methods are not properly matched to the borrower's capacity to repay the loan. Therefore such borrows in these environments increase credit risk which heavily affects the financial performance of the bank leading to high non-performing loans.

Effective credit appraisal is a leading determinant of financial performance in commercial banks. It reduces the level of non-performing loans, enhances profitability, and preserves capital. Thereby contributing to the sustainability and growth of banks. Srivastava (2019) highlighted that to manage credit risk effectively, banks must adopt more incisive and comprehensive methods moving from traditional and narrow statement analysis to specifically address adverse selection, exposure risk and default risks which could result to high non-performing loans. Credit appraisal is very prudent in assessing the borrower's capacity to repay their loan obligations hence reducing on the percentage on non-performing loans and therefore boosting the growth of commercial banks.

2.3 Credit Risk Controls and Financial Performance

Credit risk controls refer to the policies, procedures, strategies and regulatory frameworks that financial institutions implement to continuously monitor, manage, identify, assess and mitigate risk of loss due to a borrower's failure to repay their contractual obligations. Effective credit risk controls ensures that institutions can withstand financial shocks and continue to operate efficiently. These controls include, implementing strict credit policies, diversifying the credit portfolio, requiring collateral guarantees, utilizing credit risk monitoring technology and strict compliance with prudential guidelines issued by regulatory authorities such as Bank of Uganda, Basel Committee on Banking Supervision (2018). According to a study by Saunders, Cornett and McGraw (2020), effective credit risk controls enable financial institutions to track and monitor borrower repayment behavior, identify warning signals and be able to implement corrective measures including loan restructuring, rescheduling before they lead to non-performing loans.

A study by Kadima, Maingi & Sindani (2022) found that poor credit risk controls lead to profitability erosion and asset quality issues such as a rise in non-performing loans. These poor credit risk controls can lead to operational vulnerability and inability to handle rising expenses and risks. This reflects that, if there are no proper credit risk controls implemented, the asset base of the bank is affected and there will be a rise in non-performing loans which also affects the interests of the bank. This emphasizes the need for robust mechanisms that will reduce the rate of defaults and improving loan monitoring in commercial banks.

The bank of Uganda (2024) annual report further emphasized that strict implementation of credit risk controls boosts asset quality and strengthens public confidence in the banking system. Rose & Hudgins (2018) also argued that adaptable credit risk controls heavily improve the liquidity of the bank by ensuring that loans are paid on time which enable steady cash flows and therefore able to meet operational expenses. On the contrast, weak credit risk controls lead to a surge in non-performing loans, reputational damage and erosion of capital which weaken and threaten the financial stability as stated by the Basel Committee on Banking Supervision (2019).

In environments with people who have small scale businesses and their incomes are seasonal, commercial banks become vulnerable to risks and therefore efficient credit risk controls are very critical in such areas since it's hard to determine the actual capability of the customers with fluctuating incomes. Proper monitoring and control mechanisms ensure that commercial banks are able to manage sector-specific risks, respond to repayment challenges on time and maintain a strong portfolio hence improving and enhancing profitability, liquidity and long-term financial performance. Proper implementation of these controls enable banks minimize credit losses, maintain asset quality and enhance financial performance of commercial banks.

In conclusion, risk controls are strategic tools that directly influence the financial performance of commercial banks and not merely defensive mechanisms. The bank can achieve a stronger profitability, resilience and competiveness in the financial sector if losses are minimized, asset quality is improved and regulatory standards are complied with. Credit risk controls are very crucial and has a positive impact on the financial performance of commercial banks if they are properly implemented.

2.4 Loan Recovery Management and Financial Performance.

Loan recovery refers to the measures taken by banks or financial institutions to retrieve the amount owed on defaulted loans. The process begins when a borrower fails to make scheduled payments according to the terms agreed upon in the loan contract. Joseph and Mwangi (2018) emphasized that financial institutions or banks should have a strong credit system, active management as loan recovery should be treated as last resort or merely a process. It reflects that high-performing banks are those that are able to integrate credit risk controls with efficient and timely recovery procedures. Effective loan recovery helps in maintaining the financial health of lending institutions and ensuring the stability of the broader financial system. Non-performing loans can erode the profitability of the bank, reduce liquidity and weaken the capital base of banks. Therefore, ensuring the implementation of strong loan recovery systems enable bans to safeguard their assets and improve their financial health.

A study research by Kalyango and Sebudde (2020) found out that microfinance institutions (MFI's) often lack structured, proper recovery portals which frequently default to either, too rapid punitive measures or on the contrary too slow ineffective measures. Similarly, Tumwine, Mbabazi and Kasekende (2021) argue that recovery strategies such as restructuring defaulted loans, negotiating with borrowers and enforcing collateral liquidation significantly reduce NPL ratios which in turn improve the return on assets (ROA) and return on equity (ROE). Banks or financial institution that frequently or regularly follow up on their borrowers and implement appropriate recovery measures are positioned to control non-performing loans better and also stabilize their earnings. On the contrary, weak loan recovery mechanisms can lead to bank insolvency, increased non-performing loans, reduced profitability and financial distress of banks which greatly affects the financial performance of banks.

According to Addy et al. (2024), Modern approaches such as predictive analytics and digital monitoring tools have been used which have improved recovery efficiency by identifying earling warnings on potential defaulters and enabling timely interventions. Similarly, Kato and Namusonge (2019) observed that timely loan recovery reduces the costs which are associated with loan recovery and improved the financial performance of banks

The Bank of Uganda as a regulatory body requires commercial banks to maintain efficient provisions for doubtful debts which could directly affect the profitability of the banks if the recovery rates are low. Therefore, commercial banks have employed various recovery management practices which include customer follow-ups, collateral enforcement and increased engagement of guarantors which subsequently increase the rate of return. These measures are also effective to environments with high risk borrowers.

Conclusively, loan recovery can be a complex process that requires balancing the lenders need to recover what is owed on the defaulted funds with the rights and circumstances of the borrowers. However, if both parties understand the loan recovery process, it ceases to be complex but rather more flexible since they both understand the policies governing the recovery process which improves their financial health.

2.5 Credit Collection Policies and Financial Performance.

Credit collection policies refer to the official guidelines, policies and procedures that banks and other lending institutions develop to make sure that the loans and other credit facilities that are offered to borrowers are repaid within the stipulated terms. They are a major core generic of credit risk management and significantly impact on the financial performance of commercial banks. These policies involve the formal practices and policies the banks use to recover loans which may involve schedules of repayment, follow up procedures and penalty on non payment, loan restructuring solutions and legal responses.

The success of these policies dictates how successful the banks would be in reducing the number of non-performing loans (NPLs), liquidity, and protection of profitability. Clearly defined collection policies that are always followed by the letter make the borrowers learn that they have to repay the loan, decreasing the default rates and creating a constant cash flow. On the other hand, the high ratio of NPL usually occurs due to weak or irregular policies, damaging profitability and even the sufficiency of capital,Tumwine, Mbabazi & Kasekende (2021).

Investigating the relationship between strategic collection procedures and Ugandan banks, Tumwine et al. (2021) discovered that the returns on assets (ROA) and returns on equity (ROE) were greater in banks that followed the disciplined recovery practices, which minimized the provisioning costs and improved the quality of assets. Collection policies in the rural areas need to be adjusted to the agricultural income cycle and susceptibility of the borrower.

Kazaara and Christopher (2023) point out that community-based recovery techniques, borrower education, and flexible ways of repayments are especially useful in rural Uganda to decrease information asymmetry and create trust between banks and clients. The application of localized credit committees and social collateral by the commercial bank illustrates how customized collection policies can help in balancing profitability with retention of customers by making sure that the rural customers do not lose interest but the bank still makes profits. The contemporary innovations have enhanced credit collection policies.

According to Addy et al. (2024), predictive analytics and digital monitoring systems enable banks to detect the beginnings of default in their borrowers and thus intervene in time before the loans fall into delinquency. These proactive measures do not only increase the recovery rates but also promote the overall financial performance through stabilization of cash flows and decreasing cost of operations involved in the recovery of loans. Also, the regulatory frameworks provided by the Bank of Uganda imply that the banks should have sufficient covers against doubtful debts and thus proper collection policy becomes essential in compliance with the regulations as well as stability in the long run.

Credit collection policies are not just administrative processes but strategic instruments that will have a direct influence on the financial performance. Proper collection policies lead to improved profitability, liquidity and resiliency by ensuring that loans are recovered on time, default rates are minimized and assets are of good quality. Adjustable but firm rural collection strategies should be embraced by commercial banks as it becomes essential to maintain financial performance and financial inclusion.

2.6 Financial Performance of Commercial Banks.

Financial performance in commercial banks is the degree of efficiency with which banks are able to use both their financial and operational resources to produce revenues, ensure financial stability and growth that is sustainable as well as protecting the depositor funds. Measures of it are usually based on the values of return on assets, return on equity, net interest margin, profitability, liquidity ratios, and capital adequacy (Rose and Hudgins, 2018).

The aspect of regulatory compliance, macroeconomic conditions and the effectiveness of credit risk management structures affect the financial performance of commercial banks whereby high financial performance makes the bank absorb losses, increases lending activities, invests in technology, and employs the capital to withstand economic shocks, and the reverse is true (Basel Committee on Banking Supervision, 2019). In such a way, Centenary Bank has been focusing on financial inclusion but profitable with a focus on the community-based lending models and powerful recovery tools that help to balance social goals and financial sustainability.

Research shows that credit related variables, especially the quality of loans and non-performing loans are the most influential variables that determine the financial performance of commercial banks, since the high rates of default lead to low interest incomes, and higher levels of loan loss provisions as discovered by Makori and Jagongo (2019).

According to the Bank of Uganda (2023), commercial banks that have efficient credit risk management structures always enjoy high profitability and capital positions in comparison to banks with weak controls. With the use of technological solutions like digital banking systems or predictive analytics, companies have become more efficient in their operations and saved costs, which enhances financial efficiency. As Addy et al. (2024) emphasize, banks that embrace the current trend of using data-driven methods to assess their credit risks and relationship with customers are better placed to become more profitable and resilient. Bank financial performance is a multidimensional phenomenon that presents profitability, efficiency and stability. It is influenced by the internal policies like credit risk management and external factors like regulation and economic conditions.

In the case of the banks in rural community like the Kapchorwa District, the financial performance is also influenced by clientele nature, exposure to agricultural lending, SME lending and risk to income volatility where firm risk management practices are important to maintain profitability. Thus, the financial performance of commercial banks can be measured not only in terms of the capacity to make profits but also in terms of the suitability of the risk management systems that allow securing the long-term sustainability, resilience, and growth of the bank.

2.7 Research Gaps.

Despite the many works done on credit risk management and performance of financial institutions in commerce, a number of significant research gaps are still obvious. Most of the existing studies concentrate on credit risk management on a large or nationwide scale without digging down to the branch level especially in rural districts where banking services encounter special issue like agricultural reliance, unstructured businesses and seasonal income variations. This restricts the extrapolability of the current results to the rural branches such as Centenary Bank Kapchorwa District. Despite the broad research on credit risk management, the majority of researchers are focusing on credit appraisal and loan monitoring but not much emphasis on credit collection policies and loan recovery management, whereas these factors are critical in managing the non-performing loans and maintaining the bank's profitability. The existence of these gaps leads to the necessity of an institution-specific and branch-based study that will investigate how credit risk management impacts the financial performance of commercial banks.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter gives the procedure employed in carrying out the study. It explains the type of research design that will be used, the population that will be used in the research, size of the sample, sampling methods, data sources, data collection measures, data collection source, data analysis methods and ethical issues.

3.1 Research Design

The research design that was used in the study is mixed methods research design that entailed the incorporation of quantitative and qualitative methods. Numerical data was collected through the quantitative method on credit appraisal, credit risk controls, credit collection policies, and financial performance and qualitative method was applied on credit risk management practices and challenges encountered in commercial banks. The mixed methods design was deemed to be suitable due to its ability to give the researcher the chance to integrate the strengths of the two research methods, which then helped in increasing the depth and credibility of the research findings. The combination of both quantitative and qualitative information helped the researcher to have a broader picture on the impact of credit risk management on the financial performance of commercial banks.

3.2 Sampling Design

Sampling design is the process through which a representative section of the population is chosen to undertake the study.

3.2.1 Sampling Technique

The study used both the simple random sampling method and purposive sampling techniques. Simple random sampling was used to select staff respondents in order to give each member of the population an equal chance of being selected, thus minimizing bias. Purposive sampling was used to select key informants such as the branch manager and senior credit officers because of their specialized knowledge and experience in credit risk management. The use of both techniques was suitable for a mixed methods study and ensured collection of both general and in-depth information.

3.3 Target Population

The target population comprised staff of Centenary Bank, Kapchorwa Branch, particularly those working in the loans, credit, finance, and accounts departments. These staff members were targeted because they are directly involved in credit appraisal, credit risk management, loan monitoring, and recovery processes, and therefore possess relevant information required for the study.

3.4 Sample Size

Sample size refers to the number of respondents selected from the target population to participate in the study. For this study, the Yamane (1967) formula was used to determine the sample size because it is suitable for a small and finite population. The population consisted of 25 members.

The formula is given as; $n = \frac{N}{1 + N(e^2)}$

Where;
n = sample size
N = target population
e = level of precision (0.05)

$$n = \frac{25}{1 + 25(0.05^2)}$$

n = 23 respondents

3.5 Data Sources

Primary and secondary sources of data were utilized in the study to allow obtaining of all-inclusive and dependable information.

3.5.1 Primary Data

Primary data is the information that the researcher gathers directly and first time through the respondents. The primary data used in this study was collected by the use of questionnaires and interviews. The quantitative data was obtained through questionnaires and the qualitative data were obtained through interviews about the management of credit risks and its influence on the financial performance.

3.5.2 Secondary Data

Secondary data is the data that has already been made and which has been compiled by other researchers or institutions. In order to collect secondary data to conduct this study, the researcher used internal reports of Centenary Bank, its financial statements, publications of Bank of Uganda, journals, textbooks, dissertations, and other documents.

3.6 Data Collection Methods

Data collection methods are those processes that involve the collection of information in respondents.

3.6.1 Questionnaires

The questionnaires were designed to be self-administered and structured with most of the questions being closed-ended and structured using a five-point Likert scale of strongly agree to strongly disagree. The questionnaire was subdivided into different sections in order to obtain the information that is pertinent to the study objectives. The introductory part was dedicated to the demographic traits of the respondents, including department and work experience of the participants, which served to determine the level of awareness of the respondents on credit risk management practices. This was followed by sections that covered some major issues relating to credit risk management such as credit appraisal practices, credit risk control procedures, credit collections policies, and loan recovery procedures, and financial performance indicators such as loan quality, loan profitability, liquidity, and non-performing loans. Closed ended questions allowed the researcher to measure the perceptions and experiences of the respondents and it was easy to analyze patterns and association between the credit risk management practices and financial performance. The use of questionnaires was preferred due to the fact that it gave the respondents time to respond at their own convenience, reduced bias on the part of the interviewer, maintained the confidentiality aspect, and encouraged respondents to be truthful in responding to sensitive questions concerning the management of credit within the bank.

3.6.2 Interviews

Qualitative data on the sampled key informants, the manager of the branch and senior credit and loan recovery officers, were collected through interviews at the bank. The semi-structured interviews were carried out through an interview guide that had the open-ended questions which were aligned in the study objectives. This would enable the researcher to go more in-depth with the issues raised by the respondents and enable the respondents to send their thoughts, experiences, and professional judgment on the issue of credit risk management practices. Some of the issues covered in the interviews included the efficiency of credit appraisal procedures, difficulties in tracking the loan performance, implementing credit collection policies, recovery of loans, and the effects of these practices on the financial performance of the bank. The qualitative approach of interviews was also effective in explaining the quantitative findings of questionnaires, thus contributing to the study findings. They also assisted in capturing realistic challenges, gaps in policy implementation and matters that were specific to a rural banking setting. The interviews conducted also gave the study more credit as they gave detailed information that could not be well represented by the use of questionnaires.

3.7 Data Collection Instruments

Data collection instruments involve questionnaires, a descriptive observations schedule and a semi-structured interview guide. The section contains a highly detailed section of the data collection instruments that were used during the data collection. The questionnaires were written using a simple and understandable language to make the respondents answer correctly. It was oriented towards responding to the particular goals of the study pertaining to the influence of credit risk management to the financial banks of Uganda.

3.8 Data Analysis

Data analysis is the process of analyzing and interpreting the gathered data in order to make significant conclusions. The questionnaires were also coded and analyzed using descriptive statistics such as frequencies, percentages, means, and standard deviations to obtain quantitative data. Also inferential analysis was employed to determine the relationships between credit risk management practices and financial performance. The thematic analysis of qualitative data collected by interviewing was conducted in which the responses were organized into thematic groups such as credit appraisal, credit risk controls and credit collection policies. The combination of both quantitative and qualitative outcomes increased the explanations of findings.

3.9 Ethical Considerations

During the study, ethical concerns were followed to the letter. The relevant authorities gave their permission to carry out the study. The respondents were informed of the study purpose and it was voluntary. There was assurance of confidentiality and anonymity by the fact that no names were required on the questionnaires or interview transcripts. Any information sources employed were credited in a proper manner in order to prevent plagiarism.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION OF FINDINGS.

4.1 Introduction

This chapter offers the methods applied in the analysis, presentation, interpretation, and discussion of the study results. The analysis relates to the data that has been collected in terms of both quantitative and qualitative approaches like the questionnaires and interviews. Quantitative data collected on questionnaires were computed with the help of statistics frequencies, percentages, means, and standard deviations, and qualitative data collected through interviews were taken to support and explain qualitative data collected. The analyzed and presented data were utilized to make conclusions and summary of conclusions.

4.2 Questionnaire Return Rate

The research employed a total of 23 questionnaires to the sampled respondents within the bank. The number of questionnaires returned to the researcher was 23 of the total 23 questionnaires that were sent, 21 filled accordingly, and 2 of the 23 questionnaires were not returned. This was a response rate of 91.3%. A response rate of 50 percent and above is sufficient to analyze, hence the response rate was thought to be sufficiently sufficient and reliable when drawing conclusions based on the study (Kothari, 2004). Table 4.2 demonstrates the rate of the questionnaire returns.

Table 4.2: Questionnaire Return Rate

Response	Frequency	Percentage
Returned	21	91.3%
Not returned	2	8.7%
Total	23	100%

Source: Primary data

4.3 Demographic responses.

Demographic information of the respondents was processed to get the background of the respondents participating in the study. The results indicated that most respondents were men with 57.1% (n=12) and women with 42.9% (n=9). This shows that there was a representation of both sexes in the research. Regarding the education level, the majority of the respondents had a bachelor degree which indicates that the respondents were well educated and had the capacity to comprehend matters on credit risk management and financial performance. In terms of age distribution, the respondents were mostly under the age of 40 years and this means that there is an active and rather young workforce involved in credit operations. Regarding work experience, the majority of the respondents have had a work experience exceeding three years, which means that they were experienced and had adequate knowledge regarding credit risk management practices of the Centenary Bank.

Table 4.3: Demographic Characteristics of Respondents

Variable	**Category**	**Frequency**	**Percentage**
Gender	Male	12	57.1%
	Female	9	42.9%
Education level	Diploma	4	19.0%
	Bachelor's degree	14	66.7%
	Master's degree	3	14.3%
Age	Below 30 years	9	42.9%
	31-40 years	8	38.1%
	Above 40 years	4	19.0%
Work experience	Below 3 years	6	28.6%
	3-5 years	9	42.9%
	Above 5 years	6	28.6%

Source: Primary data

4.4 The effect of credit appraisal practices on the financial performance of commercial banks.

The initial research question was to focus on how credit appraisal practices impact the financial performance of commercial banks in Uganda.

Table 4.4.1: Indicating the results of the effect of credit appraisal practices on the financial performance of commercial banks in Uganda.

Statement	Mean	Standard Deviation
The bank carries out a comprehensive assessment of borrowers' financial capacity, credit history and business viability before loan approval.	4.36	0.48
The bank has a robust system and standardized methods to assess the credit worthiness of borrowers before approving loans or credit facilities.	4.29	0.51
The use of collateral and guarantors during loan appraisal reduces the likelihood of loan default.	4.22	0.54
The bank has effective credit risk control mechanisms that ensure continuous monitoring of loan performance	4.34	0.47
Regular follow up and supervision of borrowers helps the bank detect and manage problem loans at an early stage.	4.31	0.49
Credit appraisal procedures at the bank effectively identify high risk borrowers before credit is extended.	4.41	0.45
Credit collection policies are applied at the bank to guide loan repayment by borrowers.	4.35	0.46
Enforcement of credit collection policies improves cash flows and reduces non-performing loans.	4.28	0.50
Effective credit appraisal practices contribute to improved profitability and liquidity of the bank.	4.39	0.44

Effective credit appraisal practices have contributed significantly to improving the banks overall financial performance and stability.	4.33	0.48

Source: Primary data

The research data is the findings of a survey that evaluates the impact of credit appraisal practices on the financial performance of the commercial banks in Uganda. According to the findings of Table 4.4.1, credit appraisal practices have a major impact on the performance of commercial banks in terms of their financial performance. The results indicate that the mean values of all the statements are high with mean scores ranging between 4.22 and 4.41, which suggests that that successful credit appraisal practices have a positive impact on the performance of banks. Consider the following explanation. In order to approve loans, the bank conducts an extensive evaluation of the financial capacity, credit history, and business viability of the borrowers and before the whole procedure was finalized, the mean value of the loan approval was 4.36 with S.D of 0.48, indicating that good credit appraisal practices can be used to reduce risk of default and enhance quality of loans. Better quality of loans increases the amount of interest and lowers the bad debt provisions, which positively influence the profitability of commercial banks. The bank has a well-developed system and uniform ways of evaluating the credit worthiness of borrowers prior to issuance of loans or facilities of credit. Mean value of 4.29 and S.d of 0.51. This means that a robust system with adequate strength would allow the bank to identify defaulters on loans at an early stage in order to take remedial measures before they become non-performing.. Early detection of loan distress improves cash flow management and liquidity, which are key indicators of financial performance in commercial banks.

The use of collateral and guarantors during loan appraisal reduces the likelihood of loan default Mean value of 4.22 and SD of 0.54. This shows that enforcement of collateral and guarantors significantly detect loan defaulters hence improving on the financial performance of the bank.

The bank has effective credit risk control mechanisms that ensure continuous monitoring of loan performance with a mean of 4.34 and SD of 0.47. This indicates that monitoring activities of loan performance through follow-ups have a great significance on the cash flows which improve on the financial performance of the commercial bank.

Regular follow up and supervision of borrowers helps the bank detect and manage problem loans at an early stage. Mean (4.31) and SD (0.49). Respondents strongly agree that regular follow up and supervision of borrowers help the bank detect and mange loan defaults at an early stage.

Credit appraisal procedures at the bank effectively identify high risk borrowers before credit is extended. Mean (4.41) and SD (0.45). Respondents also agreed that the appraisal procedures can help in detecting high risk borrowers before any loan is granted.

Credit collection policies are applied at the bank to guide loan repayment by borrowers with a mean value of 4.35 and SD of 0.50. The respondents strongly agreed that credit collection policies are put in place at the bank to guide repayment by borrowers which reduces non-performing loans.

Enforcement of credit collection policies improves cash flows and reduces non-performing loans. Mean (4.28) and SD (0.50). The respondents showed a positive response on the enforcement of credit collection policies and its improvement on cash flows.

Effective credit appraisal practices contribute to improved profitability and liquidity of the bank. Mean (4.39) and SD (0.44). Respondents agree that credit appraisal activities improve the profitability and liquidity of the bank.

Effective credit appraisal practices have contributed significantly to improving the banks overall financial performance and stability. Mean (4.33) and SD (0.44). Respondents agreed that effective credit appraisal practices have significantly contributed to the improvement of the financial performance of commercial banks.

In conclusion, the findings from the research indicate that effective credit risk management practices contribute positively to profitability, liquidity, and financial stability of commercial banks.

Table 4.4.2: Pearson's correlation analysis between credit risk management and financial performance of commercial banks.

Variables	Credit appraisal	Financial performance
Credit appraisal	1.000	
Financial performance	0.534	1.000

Correlation is significant at the level 0.01 level

Source: Primary data

The Pearson correlation outcomes show that credit appraisal and financial performance of commercial banks have a moderate positive relationship with the correlation coefficient of r = 0.534. This means that any improvements in financial performance are linked to any improvement in credit appraisal practice though credit appraisal is not a complete determinant of the performance of the bank. The moderate correlation implies that though comprehensive evaluation of the financial capacity, credit history, business viability and collateral requirements of borrowers is significant in the minimization of the default risk and the enhancement of loan quality, financial performance is also determined by other variables in the form of credit risk controls, loan recovery management, operational efficiency, and market conditions. The positive and significant correlation served as the evidence that effective credit appraisal is a meaningful profitable, liquid, and quality asset contributor of commercial banks. Nevertheless, the average intensity of the correlation indicates the sophistication of the banking operations, in which the overall impact of the various risk management practices on financial performance is experienced.. This finding is more realistic in practice and supports the view that credit appraisal is a key, but not the only, driver of financial performance in commercial banks.

4.5 The influence of credit monitoring and control on the financial performance of commercial banks.

The second objective of the study was to assess the influence of credit monitoring and control on the financial performance of commercial banks in Uganda.

Table 4.5.1: Shows the influence of credit monitoring and control on the financial performance of commercial banks in Uganda.

Statements	Mean	Standard deviation
The bank continuously monitors borrowers' loan accounts to ensure that loan repayments are made in accordance with agreed repayment schedules	4.31	0.48
Regular follow-up visits and communication with borrowers enable the bank to identify repayment challenges at an early stage	4.28	0.50
Credit monitoring systems at the bank effectively track loan performance throughout the loan period	4.26	0.52
Early identification of problem loans enables the bank to take timely corrective measures to reduce potential losses	3.34	0.37
The bank promptly restructures or reschedules loans when repayment difficulties are detected	4.27	0.49
Credit monitoring and control measures help the bank minimize the level of non-performing loans	4.32	0.48
Regular review of loan accounts improves borrowers' compliance with loan repayment obligations	4.25	0.51
Effective credit monitoring practices improve cash flow management within the bank	4.30	0.46
Credit monitoring and control enhance the bank's liquidity position by ensuring steady loan repayments	4.29	0.50
Effective credit monitoring and control practices contribute to improved profitability and overall financial performance of the bank	4.35	0.45

The research data presented in table 4.5.1 show the results of a survey assessing how credit monitoring and control influence the financial performance of commercial banks. It suggests that;

The bank continuously monitors borrowers' loan accounts to ensure that loan repayments are made in accordance with agreed repayment schedules. Mean (4.31), SD (0.48). This suggests that regular monitoring of borrowers loan accounts ensure that loans are paid on time and promptly.

Regular follow-up visits and communication with borrowers enable the bank to identify repayment challenges at an early stage with a mean of 4.28 and SD of 0.50.Respondets strongly agreed that the regular follow ups enable the bank identify challenges at an early stage.

Credit monitoring systems at the bank effectively track loan performance throughout the loan period. Mean (0.46), SD (0.52). This shows that the respondents agreed that the credit monitoring systems help track loan performance hence reducing levels of non-performing loans.

Early identification of problem loans enables the bank to take timely corrective measures to reduce potential losses. Mean (3.34), SD (0.37). Respondents moderately agreed that the early identification of problem loans helps the bank come up with corrective measures to reduce the potential losses.

The bank promptly restructures or reschedules loans when repayment difficulties are detected. Mean (4.27). SD (0.49). Respondents strongly agreed that the bank structures or reschedules loans when payment difficulties are detected. This increases the profitability of the bank.

Credit monitoring and control measures help the bank minimize the level of non-performing loans. Mean (4.32), SD (0.48). Respondents also agreed that monitoring and control measures help in the minimization of non-performing loans as it's done regularly.

Regular review of loan accounts improves borrowers' compliance with loan repayment obligations. Mean (4.25), SD (0.51). Respondents strongly agreed that compliance of repayment obligations by borrowers is improved when regular review of loan accounts is done.

Effective credit monitoring practices improve cash flow management within the bank. Mean (4.30), SD (0.46). Respondents agreed that credit monitoring practices improves cash flow management which in the end increases the profitability of the bank.

Credit monitoring and control enhance the bank's liquidity position by ensuring steady loan repayments with a mean of (4.29) and SD of (0.50). Respondents agreed that the banks liquidity position is improved by credit monitoring and controls through ensuring steady repayments.

Effective credit monitoring and control practices contribute to improved profitability and overall financial performance of the bank. Mean (4.35), SD (0.45). Respondents agreed that effective credit monitoring and control practices contribute to improved overall performance of the bank.

In summary, credit monitoring and control has a great influence on the financial performance of the bank. It confirms that effective monitoring and control initiatives are paramount in promoting financial performance by minimizing loan defaults, enhancing management of cash flows, and the strengthening the liquidity status of the bank. The majority of the structured questions were strongly agreed to by the respondents.

Table 4.5.2: Correlation between credit monitoring and control on the financial performance of commercial banks in Uganda.

Variables	Credit Monitoring and Control	Financial Performance
Credit Monitoring and Control	1.000	
Financial Performance	0.562**	1.000

Correlation is significant at 0.01 level

Source: Primary data

The Pearson correlation analysis reveals that there is moderate positive relationship between credit monitoring and control and financial performance of commercial banks where a correlation coefficient r = 0.562 was obtained. This implies that credit monitoring practices and control practices enhancements are linked to financial performance enhancement. The moderate level of the relationship implies that although the effective monitoring and control can substantially decrease the non-performing loans, increase the cash flows, and liquidity, there are other credit risk management policies and operational results affecting the performance of the financial results.. Nevertheless, the positive and statistically significant relationship confirms that credit monitoring and control play an important role in enhancing the financial performance of commercial banks.

4.6 The effect of loan recovery management on the financial performance of commercial banks.

The third objective of the study was to examine the effect of loan recovery management on the financial performance of commercial banks.

Table 4.6.1: Shows the response on loan recovery management and financial Performance.

Statement	Mean	Standard deviation
The bank has clear loan recovery policies that guide staff on handling overdue and defaulted loans	4.28	0.49
Loan recovery procedures are consistently applied to all borrowers with overdue loan obligations	4.25	0.51
The bank follows up overdue loans promptly through reminders, visits, and formal communication	4.32	0.48
Early recovery actions taken by the bank help prevent loans from becoming non-performing	4.34	0.47
Restructuring or rescheduling of loans is used effectively to support recovery from distressed borrowers	4.26	0.50
Legal action is pursued where necessary to recover loans that are persistently in default	4.18	0.55
The involvement of guarantors enhances the recovery of defaulted loans	4.28	0.52
Effective loan recovery management improves cash inflows to the bank	4.30	0.46

Loan recovery practices help reduce the level of non-performing loans	4.33	0.48
Effective loan recovery management contributes to improved profitability and overall financial performance of the bank	4.36	0.45

Source: Primary data

The results presented in Table 4.6 show the research findings on the effect of loan recovery management on the financial performance of the bank. The table shows the mean and standard deviation values for responses to statements related to loan recovery management.

The bank has clear loan recovery policies that guide staff on handling overdue and defaulted loans. Mean: 4.28, SD: 0.49. Respondents agree that recovery policies guide staff on handling loan recovery and reduces non- performing loans.

Loan recovery procedures are consistently applied to all borrowers with overdue loan obligations. Mean (4.25), SD (0.51). Respondents agree that loan recovery procedures are applied to borrowers with overdue loans.

The bank follows up overdue loans promptly through reminders, visits, and formal communication. Mean (4.32), SD (0.48). Respondents have a strong agreement about the follow ups on borrowers.

Early recovery actions taken by the bank help prevent loans from becoming non-performing. Mean: 4.34, SD: 0.47. Respondents have a slightly moderate agreement on early actions taken to prevent loans from becoming non-performing.

Restructuring or rescheduling of loans is used effectively to support recovery from distressed borrowers. Mean: 4.26, SD: 0.50. Respondents agree that restructuring of loans can be implemented when borrowers cannot repay at the required time.

Legal action is pursued where necessary to recover loans that are persistently in default. Mean (4.18). SD (0.55). Respondents strongly agree that legal actions can be taken to recover loans that are persistent in default from borrowers.

Effective loan recovery management improves cash inflows to the bank. Mean (4.28), SD (0.52). Respondents agreed that effective loan recovery management improves cash flows.

The involvement of guarantors enhances the recovery of defaulted loans. Mean (4.30), SD (0.46). Respondents strongly agreed that guarantors enhance the recovery of defaulted loans.

Loan recovery practices help reduce the level of non-performing loans. Mean: 4.33, SD: 0.48. Respondents agreed that the loan recovery practices in the bank reduce the level of non-performing loans.

In conclusion, loan recovery management can heavily affect the financial performance of the bank. Better cash inflows generate better liquidity which is a principal indicator of financial performance among the commercial banks. Though the legal action was slightly lower in recorded mean of 4.18, that still shows that there is a consensus among the respondents, which implies that legal actions are applied as a last resort in the loan recovery process.

Table 4.6.2. Correlation between loan recovery management and financial performance.

Variables	Loan recovery management	Financial performance
Loan Recovery Management	1.000	
Financial Performance	0.547**	1.000

Correlation is significant at 0.01 level

Source: Primary data

The results of Pearson correlation indicate that there is a moderate positive correlation between loan recovery management and the financial performance of commercial banks and the correlation coefficient is r = 0.547. This implies that increase in loan recovery management practices is linked with increase in financial performance. The medium intensity of the correlation implies that, though efficient recovery of overdue loans enhances the improvement of cash inflows, non-performing loans, and profitability, other credit risk management practices and external aspects also drive the financial performance. However, the statistically significant positive relationship proves that the loan recovery management is significant in improving the financial performance of commercial banks.

4.7 Discussion of Findings

The study results show that credit risk management practices play a major role in determining the financial performance of commercial banks. Good credit assessment was discovered to enhance quality of loans by having assessment of the borrowers in a thorough manner before credit is advanced. Loan recovery management and monitoring were also pointed out as very important in reducing credit losses and enhancing cash flows. Policies of credit collection increase the repayment of loans and decrease the non-performing loans which contributes to the liquidity and profitability of the bank. The correlation in the two variables; credit risk management and financial performance, is positive which confirms that having good credit management structures is essential to the financial stability of commercial banks.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter portrays the summary of findings, conclusions, and recommendations of the study. It also identifies the areas of research

5.1 Summary of Findings

5.1.1 Effect of Credit Appraisal on the Financial Performance of Commercial Banks.

The study has shown that the credit appraisal plays a very crucial role in determining the financial performance of commercial banks. The respondents are of the strong opinion that good credit appraisal is very essential in the bank. The mean scores of all the statements about credit appraisal are high and the mean values tend to be over 4.2 indicating that it has a strong consensus of the influence of credit appraisal. More specifically, the financial capacity of the borrowers, credit history, and business viability evaluation reflected high mean scores which illustrate that the detailed appraisal practice is crucial in minimizing loan default and enhancing the quality of loans. The statement concerning the role of effective credit appraisal in enhancing profitability and the overall financial performance posted one of the highest values on the mean therefore underlining the relevance of good appraisal procedures. The descriptive findings were also supported by the correlation analysis where a moderate positive relationship was found between credit appraisal and financial performance with a Pearson correlation coefficient of $r = 0.534$ which was also statistically significant at the level of 0.01. This implies that, when there is an enhancement in credit appraisal procedures, there is an enhancement in the financial performance. There is a moderate level of strength of the relationship indicating that as much as the effective credit appraisal plays a role in ensuring increased profitability and liquidity as well as asset quality, other credit risk management practices including credit monitoring and loan recovery management have a contribution to the financial performance. The results indicate that proper credit appraisal procedures can assist commercial banks to reduce credit risk by ensuring that high-risk borrowers are known in advance prior to granting credit. This helps to decrease non-performing loans, and enhances financial strength thus, the financial performance of commercial banks.

5.2.2 Influence of Credit Monitoring and Control on Financial Performance of Commercial Banks.

The study results point to the fact that credit monitoring and control have a major impact on the commercial banking performance. Findings of Chapter Four reveal that respondents largely agreed with the statements touching on continuous monitoring of loan accounts, frequent follow-ups on borrowers, and early detection of problem loans where the mean values are between 4.25 and 4.35. These findings imply that good monitoring can help banks in identifying repayment difficulties at an early stage and initiating the corrective measures before loans degenerate to non-performing assets. The standard deviations are relatively low, which proves the consistency in the responses, meaning that the respondents have a common understanding on the role that credit monitoring and control play in improving financial performance. These results have also been supported by the correlation analysis that showed that there was a moderate positive relationship between credit monitoring and control and financial performance at the level of the Pearson correlation coefficient of $r = 0.562$, and this was statistically significant. This means that increase in credit monitoring and practices in credit control are related to increase in profitability, liquidity and asset quality. Nonetheless, the mediocre character of the relationship implies that although monitoring and control are significant, they exist in combination with other supplementary practices of credit risk management like credit appraisal and loan recovery management. These results coincide with the current body of literature that focuses on the fact that constant monitoring of the loans and proper control mechanisms minimize credit losses and improve bank performance. Bessis (2011) says that the loan performance can be monitored regularly, thus allowing early intervention that will lead to the prevention of non-performing loans. On the same note, Basel Committee on Banking Supervision (2001) points out that the credit control systems are very important in ensuring that banking institutions are financially sound. The findings of this research are thus valid that good credit monitoring and control practices are value addition to the financial performance of commercial banks.

5.2.3 Effect of Loan Recovery Management on Financial Performance of Commercial Banks

The research also shows that loan recovery management positively impacts on the financial performance of commercial banks. Chapter Four results demonstrate that the respondents were in agreement with statements on prompt follow-up of overdue loans, guarantor's participation, loan restructuring, and recovery policy enforcement with the range of mean values of 4.18 to 4.36. The findings show that proper recovery practices help to increase the cash inflows and lower the amount of non-performing loans, which leads to better financial performance of commercial banks. The fact that the difference in the answers is not very large can help to infer that the respondents had common opinion concerning the significance of loan recovery management. The correlation analysis revealed that there was a moderate positive relationship between the two variables loan recovery management and financial performance with Pearson correlation coefficient of $r = 0.432$, which was found to be statistically significant. This shows that a strong loan recovery management will help in boosting the financial performance though the relationship is not that strong. The correlation value is moderate as it indicates that recovery of outstanding loans enhances the liquidity and profitability but also financial performance is affected by preventive actions like credit appraisal and monitoring. These results are consistent with the past literature that has highlighted the importance of loan recovery management in sustaining the performance of banks. According to the Basel Committee on Banking Supervision (2001), robust loan recovery programs are necessary to reduce credit losses and maintain capital. On the same note, Adeusi et al. (2014) suggest that proper recovery procedures minimize bad loans and improve profitability. The results of the present research thus indicate that loan recovery management is a sensitive part of credit risk management though it is optimally effective when combined with effective appraisal and monitoring practices.

5.3 Conclusions

Conclusively, the research has emphasized that successful credit appraisal is one of the most critical factors of financial performance within a commercial bank. Effective evaluation of the ability of the borrowers to make repayments, credit record, business feasibility, and security minimizes the default risk of loan and enhances the quality of the loan portfolios. This is helping to make the commercial banks more profitable and stable. The study also emphasized the importance of credit monitoring and control in the improvement of financial performance. It implies that a sustained observation of the performance of loans and early detection of difficulties in repaying them can allow banks to initiate corrective actions in time, preventing credit losses and enhancing the liquidity situation. Good credit surveillance systems are thus the key to maintaining the financial performance in commercial banks.

Lastly, the research also highlighted that loan recovery management has a positive impact on financial performance through increasing cash inflows and decreasing non-performing loans (NPLs). Nevertheless, the moderate strength of the relationship denotes that loan recovery management in isolation of other practices cannot ensure better performance unless it is backed by effective credit appraisal and monitoring practices in the bank systems developed.

5.4 Recommendations

According to the findings and the conclusions, the study suggests that commercial banks ought to tighten their credit evaluation process by undertaking intensive evaluation of the financial strength, credit history and business feasibility of borrowers prior to granting them loans. The risk of loan default and improving the financial performance of the bank should be minimized through the application of the appraisal policies. This also offers efficacy of the various procedures of credit evaluation.

Holistic improvement of credit monitoring and control mechanism should also be improved in the commercial banks by investing on effective loan monitoring systems and by following up the borrowers on a regular basis. There should be the focus on early detection of problem loans so that corrective action can be taken as soon as possible hence minimizing the non-performing loans and enhancing the management of cash flow. With a close adjustment of the policies, the banks can be in a position to overcome the difficulties that can be linked with credit collection therefore fostering a long term financial stability.

Lastly, the study also recommends that banks should improve on loan recovery management by implementing clear recovery policies, strengthening follow-up procedures for overdue loans, having a strong executive team to follow up on the clients and implement the policies and also adopting flexible recovery strategies such as loan restructuring where appropriate. Legal recovery measures should be used cautiously and as a last resort to maintain good customer relationships. The banks should also ensure continuous training of credit staff to enhance their skills in credit appraisal, monitoring, and loan recovery as this will improve the effectiveness of credit risk management and contribute to improved financial performance.

REFERENCES.

Ioannidau, Pavanini & Peng (2022). Credit risk management and financial performance.

Journal of Financial economics

Athanasoglou, P. P., Brissimis, S. N., & Delis, M. D. (2018).

Bank-specific, industry-specific, and macroeconomic determinants of bank profitability.

Journal of International Financial Markets, Institutions and Money, 18(2), 121-136.

Joseph Macharia & Dr. Cyrus Mwangu Iraya (2018)

IOSR journal of Economics and Finance, (2018)

Bobakovia, I. V. (2023). Determinants of bank profitability:

An empirical study from Slovakia. Journal of Financial Studies, 29(4), 345-367.

Bourke, P. (2019). The profitability of commercial banks in the OECD countries:

An econometric analysis. Economic and Financial Modelling, 6(1), 84-100.

Bryman, A., & Bell, E. (2019). Business research methods (5th ed.).

Oxford University Press.

Chirwa, E. (2021). Determinants of profitability of commercial banks in Sub-Saharan Africa.

African Journal of Business and Economic Research, 10(2), 122-139.

Cooper, D. R., & Schindler, P. S. (2019). Business research methods (13th ed.).

McGraw-Hill Education.

Diamond, D. W., & Dybvig, P. H. (1983). Bank runs, deposit insurance, and liquidity.

Journal of Political Economy, 91(3), 401-419.

Eshna, V. (2017). Financial performance measurement of banks:

A critical review. International Journal of Finance, 10(4), 112-130.

Ewansiha, F., & Udoka, E. (2022). The impact of credit risk on the performance of commercial banks in Nigeria.

International Journal of Banking and Finance, 9(1), 71-89.

Foong, K. K. (2018). Return on equity and cost of equity in banks:

A study of the Malaysian banking sector. Journal of Banking and Finance, 16(3), 220237.

Gray, R., & O'Brien, M. (2022). Ethical lending and customer trust in commercial banks.

Journal of Business Ethics, 14(2), 154-168.

Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2019).

Multivariate data analysis (8th ed.). Pearson.

Hyndman, R. J. (2018). Data processing and analysis in research:

A practical approach. Research Methods Journal, 12(4), 250-267.

Kaplan, S. N. (2018). The future of banking regulation and credit risk management.

Journal of Economic Perspectives, 32(3), 121-144.

Kim, D., & Santomero, A. M. (2018). Risk in banking and capital regulation.

Journal of Finance, 53(4), 121-142.

Koehn, M., & Santomero, A. M. (2020). Regulation of bank capital and portfolio risk.

Journal of Finance, 35(5), 1235-1244.

Kolapo, T. F., Ayeni, R. K., & Oke, M. O. (2021).

Credit risk and commercial banks' performance in Nigeria:

A panel model approach. Australian Journal of Business and Management Research, 3(2), 31-38.

Kothari, C. R. (2004). Research methodology: Methods and techniques (2nd ed.).

New Age International Publishers.

Miller, S. M., & Noulas, A. G. (2007). Portfolio mix and large-bank profitability in the USA.

Applied Economics, 29(4), 505-512.

Mugume, A., & Muhanji, S. (2019). Risk management optimization in

Ugandan commercial banks. Journal of African Finance, 8(2), 67-82.

Nannyonjo, J. (2021). The effect of credit policies on SME access to finance in Uganda.

African Development Review, 33(1), 50-63.

Nakabuye, S., & Kirungi, E. (2018). Customer relationship management in credit services:

A study of commercial banks in Uganda. Journal of Banking Research, 7(3), 89-102.

Ojangole, J., & Odongo, T. (2023). Asset-liability management in commercial banks:

Insights from Uganda. East African Financial Review, 12(2), 45-62.

Ogwang, T. (2018). Cost of capital and credit policy decisions in Ugandan banks.

Uganda Banking Journal, 5(1), 30-48.

Pyle, D. H. (2021). Bank risk management. World Bank Institute.

Rauch, C., Gritti, M., & Kabir, M. (2018). Financial performance measures for banks: A comparative study. Global Journal of Banking and Finance, 15(4), 200-217.

Sanusi, L. S. (2022). The Nigerian banking crisis: Lessons and recommendations. African Journal of Economic Studies, 7(1), 22-38.

Shen, C. H., & Lee, C. C. (2020). Determinants of bank performance in emerging economies: The role of financial reforms. Journal of Banking & Finance, 45(2), 234-248.

Ssempijja, S., & Mugerwa, J. (2022). Regulatory compliance and credit risk management in Ugandan commercial banks. Uganda Banking Review, 10(3), 85-102.

Sufi, A. (2009). The real effects of debt certification: Evidence from the introduction of bank loan ratings. Review of Financial Studies, 22(4), 1659-1691.

Umoh, P. N. (2022). Liquidity and credit risk management in Nigerian banks. Journal of African Finance, 8(1), 70-85.

GENERAL INFORMATION

Instructions;

1. Do not write your name anywhere on this paper.
2. Tick only where applicable.

SECTION A:

1. Age:
   a) Under 20
   b) 31-40
   c) Above 40

2. Gender:
   a) Male   b) Female

3. Educational Qualification:
   a) High school or below   b) Bachelor's Degree
   c) Master's Degree   d) PhD or higher

Duration worked for ABSA Bank-Uganda:

a) Less than 1 year   b) 1-3 years   c) 3-6 years

c) 6-10 years ☐ d) More than 10 years ☐

SECTION B: THE EFFECT OF CREDIT APPRAISAL ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS.

These statements examine the effect credit appraisal on the financial performance of commercial banks in Uganda. On a scale of 1-5, please indicate the extent to which your opinion aligns with the statements provided.

Scale	1	2	3	4	5
Interpretation	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

Statement	1	2	3	4	5
The bank carries out a comprehensive assessment of borrowers' financial capacity, credit history and business viability before loan approval.					
The bank has a robust system and standardized methods to assess the credit worthiness of borrowers					

before approving loans or credit facilities.					
The use of collateral and guarantors during loan appraisal reduces the likelihood of loan default.					
The bank has effective credit risk control mechanisms that ensure continuous monitoring of loan performance					
Regular follow up and supervision of borrowers helps the bank detect and manage problem loans at an early stage.					
Credit appraisal procedures at the bank effectively identify high risk borrowers before credit is extended.					
The bank applies credit collection policies to guide loan repayment by borrowers.					
Enforcement of credit collection policies improves cash flows and reduces non-performing loans.					
Effective credit appraisal practices contribute to improved profitability and liquidity of the bank.					
Effective credit appraisal practices have contributed significantly to improving the banks overall financial performance and stability.					

SECTION C: THE EFFECT OF CREDIT COLLECTION POLICIES ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS.

These statements evaluate how the credit collection policies used by commercial banks in Uganda influence financial performance. On a scale of 1-5, please indicate the extent to which your opinion aligns with the statements provided

Scale	1	2	3	4	5
Interpretation	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

Statement	Mean	Standard deviation			
The bank continuously monitors borrowers' loan accounts to ensure that loan repayments are made in accordance with agreed repayment schedules					
Regular follow-up visits and communication with borrowers enable the bank to identify repayment challenges at an early stage					
Credit monitoring systems at the bank effectively track loan performance throughout the loan period					

Early identification of problem loans enables the bank to take timely corrective measures to reduce potential losses					
The bank promptly restructures or reschedules loans when repayment difficulties are detected					
Credit monitoring and control measures help the bank minimize the level of non-performing loans					
Regular review of loan accounts improves borrowers' compliance with loan repayment obligations					
Effective credit monitoring practices improve cash flow management within the bank					
Credit monitoring and control enhance the bank's liquidity position by ensuring steady loan repayments					
Effective credit monitoring and control practices contribute to improved profitability and overall financial performance of the bank					

SECTION D: THE EFFECT OF LOAN RECOVERY MANAGEMENT ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS.

These statements assess how loan recovery management affect the financial performance of commercial banks. On a scale of 1-5, please indicate the extent to which your opinion aligns with the statements provided

Scale	1	2	3	4	5
Interpretation	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

Statement	1	2	3	4	5
The bank has clear loan recovery policies that guide staff on handling overdue and defaulted loans					
Loan recovery procedures are consistently applied to all borrowers with overdue loan obligations					
The bank follows up overdue loans promptly through reminders, visits, and formal communication					
Early recovery actions taken by the bank help prevent loans from becoming non-performing					
Restructuring or rescheduling of loans is					

used effectively to support recovery from distressed borrowers					
Legal action is pursued where necessary to recover loans that are persistently in default					
The involvement of guarantors enhances the recovery of defaulted loans					
Effective loan recovery management improves cash inflows to the bank					
Loan recovery practices help reduce the level of non-performing loans					
Effective loan recovery management contributes to improved profitability and overall financial performance of the bank					

"Thank you for time and God bless you all"