CREDIT RISK ASSESSMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA :A CASE OF STANBIC BANK WANDEGEYA BRANCH

RINAH AIJUKA

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

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DECLARATION.

I, Aijuka Rinah declare ta tis research report is presented in its original form and has been presented to any other Institutions or university for academic purposes.

Signature……..

Date…3/09/2024….

Name, reg number….AIJUKA RINAH: C52/B33/0082

APPROVAL.

This research report by AIJUKA RINAH on "Credit risk assessment and financial performance of commercial banks in Uganda, A case study of Stanbic Bank- Wandegeya" has been done under my supervision and is now ready for submission with my approval.

Mr. AHABWE ALEX,

Signature: ……

Date:……27/8/2024

DEDICATION

This research is dedicated to my father Mr. Kakuru Livingstone and mother Mrs. Harriet Kakuru who have been my providers throughout this journey.

ACKNOWLEDGEMENT.

I would like to acknowledge the contribution of the following people in order to have this report completed;

First, I would like to acknowledge the support of my supervisors Mr. Alex Ahabwe for his tireless support and guidance that enabled me complete research report successfully, May the almighty God bless him abundantly.

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Above all, I thank the almighty God for the wisdom, knowledge and for the gift of life. I would not have accomplished all this without his love and favor.

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CRB - Credit Reference Bureau

CAR - Capital Adequacy Ratio

NPL - Non performing loans

Max - Maximum

ROA - Return on Assets

ROE - Return on equity

SDn - Standard Deviation

ABSTRACT

The research examined the effect of credit risk assessment and financial performance of commercial banks. The objectives were; to examine the impact of credit risk assessment on financial performance of commercial banks, the challenges faced by commercial banks in credit assessment and suggest possible solutions and the credit risk assessment policies used by Stanbic bank. The study employed a cross sectional survey design in addition to adopting a mixed approach. The study population was 38 where a sample size of 35 was selected using Morgan (1970). Data was collected using questionaire surveys and documents review methods. The study findings revealed that credit risk assessment has a greater contribution to financial performance in reference to Stanbic bank Uganda. The study finally concludes that credit risk assessment relatively predicts financial performance of Stanbic bank. The study recommends that; The management of Stanbic bank should consider putting more emphasis on credit risk management. The management of Stanbic bank should as well put in place good measures to ensure that appropriate credit risk measures are put in place so as to maintain the smooth running of the financial activities. The management should put more emphasis on proper credit risk management and this can significantly help in enhancing financial performance of the Bank.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents the background of the study, statement of the problem, objectives of the study, research questions, scope of the study and significance of the study. This study was set to examine the impact of credit risks on financial performance of commercial banks, a case study of Stanbic bank, Wandegeya branch. Credit risks significantly impact the financial performance of commercial banks in Uganda. This assessment encompass guidelines for credit risk assessment, which influence the operational costs, profitability, and overall financial performance of commercial banks and other financial institutions in Uganda. In developing economies like Uganda, the relationship between credit risk assessment and financial performance is particularly crucial due to the evolving financial and economic challenges. This study focuses on commercial banks in Kampala to examine how credit risk assessment affect their financial performance. This chapter presents the background of the study, problem statement, purpose, objectives, research questions, study significance, justification, scope, conceptual framework and key definitions.

1.1 Background to the Study .

Businesses operating in the same industry use financial performance, as defined by Morara (2021), to compare their own returns on assets, profitability, and liquidity. It is a broad indicator of an entity's overall financial state measured over a given period of time. A business's financial performance is its degree of performance over a given time period, represented in terms of its total profits and losses during that period. Nevertheless, the precise nature of the correlation between the two variables differed among markets and nations. Asaduzzaman and Chowdhury's (2022) study conducted in Bangladesh is one of these studies, and it found that improved credit risk management significantly contributes to improved commercial banks' financial performance.

Senan, Anagreh, and Almugari (2022) found that the three most significant factors influencing the performance of Indian commercial banks as assessed by return on assets (ROA) are net profit margin, monetary policy, and profit after tax.

In Uganda, credit risk management is a very common issue that directly impacts the liquidity and financial position of the bank. For example, in Ethiopia, Fekadu (2023) showed that proper credit risk management is measured by behavior of credit recovery,

cash conversion cycle, and accounts payable time, significantly influence the financial performance of banks in the banking sector and as a result, the firms noticed an increase in both return on investment and and return on assets.

Majority of business organizations in Uganda still face numerous difficulties when it comes to evaluating credit risk, which is having an impact on their growth and profitability and, ultimately, their capacity to make meaningful contributions to sustainable development (Kazimoto, 2016). Financial performance measures, or FPMs, are crucial to the effectiveness and productivity of commercial banks in Uganda. The metrics of return on assets, profitability, and liquidity are used to assess financial success. With roots in groundbreaking research that created the foundation for credit risk control, the study of credit risk and financial performance is strongly rooted in financial theory and practice.

The Merton Model (1974), first presented by Robert C. Merton, is a seminal model that frames a company's stock as a call option on its assets by applying option pricing principles to corporate debt. This conceptual framework had a big effect on how credit risk is assessed today. The field was further advanced in the 1990s by J.P. Morgan's Credit Metrics (1997), which integrated market and credit risks and quantified credit risk through possible changes in credit ratings. These frameworks and studies emphasize the complex relationship between credit risk and financial performance, emphasizing the importance of strong risk management to ensure financial stability and profitability.In Uganda, the study and management of credit risk and financial performance have evolved significantly over recent decades, driven by regulatory reforms and the maturation of the financial sector. The banking sector, which is under the oversight of the Bank of Uganda (BOU), has faced persistent challenges related to credit risk, particularly non-performing loans (NPLs). The NPL ratio, a key indicator of credit risk, has fluctuated over the years, reflecting the sector's ongoing struggle with loan defaults. As of the Bank of Uganda's Financial Stability Report (2022), the NPL ratio stood at approximately 5.4%, showing a slight improvement from previous years but still indicating substantial credit risk. This reduction from a high of 6.2% in 2018 demonstrates some progress in credit risk management, but it remains a critical issue for the banking sector. Financial performance in Ugandan banks is commonly assessed using metrics such as Return on Assets (ROA) and Return on Equity (ROE). These ratios provide insight into the profitability and operational efficiency of banks. In 2022, the average ROA for Ugandan banks was approximately 2.1%, while the ROE was about 10.5%. These figures, though modest, indicate a stable profitability trend in the sector, despite the challenges posed by credit risk. The implementation of international regulatory

frameworks, particularly the Basel II and III standards, has significantly influenced credit risk management practices in Uganda. These standards mandate higher capital adequacy ratios, stress testing, and enhanced risk management procedures, which have helped Ugandan banks build resilience against potential losses. In 2022, the average Capital Adequacy Ratio (CAR) for Ugandan banks was 21.3%, well above the regulatory minimum requirement of 12%. This substantial buffer indicates that banks are better equipped to absorb shocks arising from credit risk and other financial disturbances.

Empirical research, such as the study by Kamukama and Tumwine (2017), underscores the importance of effective credit risk management in enhancing the financial performance of Ugandan banks. Their findings suggest that improvements in credit appraisal, monitoring, and recovery processes can significantly reduce the incidence of loan defaults, thereby boosting profitability and stability. For example, the study found that banks with appropriate credit risk management frameworks had lower NPL ratios and higher ROA and ROE compared to those with weaker risk management practices. Additionally, the adoption of advanced credit risk assessment practices is gradually becoming more prevalent in Uganda which further strengthens the sector's ability to manage credit risk appropriately.

These developments highlight the critical link between managing credit risk and achieving sustainable financial performance in Uganda's banking sector. By continuously enhancing credit risk management practices and adhering to stringent regulatory requirements, Ugandan banks can improve their financial stability and contribute to the overall economic growth of the country.

In an effort to reduce risks in the banking industry, the Bank of Uganda established the Credit Reference Bureau (CRB), and both financial institutions and their debtors must register. Bank of Uganda, 2021. The background information provided above demonstrates how banks and regulators have been collaborating to reduce credit risks that impact commercial banks and other financial institutions. To effectively create mitigation strategies, it is first necessary to understand the types of risks to which a bank is primarily exposed and how those risks may impact its financial performance. Thus, the purpose of this study was to investigate how credit risks affected Stanbic Bank's financial performance.

1.2 Problem statement

Credit risk refers to the risk that a borrower may fail to repay a loan or meet their financial obligations as agreed upon in the lending agreement. It encompasses the possibility of default or delay in repayment by the borrower, which could result in financial losses for the lender.

Credit risk is a significant concern for financial institutions, such as banks, as it can affect their profitability and stability. Lenders typically assess credit risk by evaluating factors such as the borrower's credit history, financial stability, income, and the purpose of the loan. Commercial banks in Uganda are facing various challenges including non-performing loans, fluctuations of interest rates, harsh economic conditions, fake security by loan applicants, fraud, and among others, which have negatively affected their performance.

According to Saunders and Cornett (2011), credit risk is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. The Basel Committee on Banking Supervision (2000) emphasizes the importance of robust risk management frameworks, which banks like Stanbic Bank Wandegeya must adopt to mitigate potential credit losses. Various studies have examined different models for assessing credit risk. For instance, Altman's (2018) Z-score model remains a foundational tool for predicting corporate bankruptcy, while more recent approaches incorporate machine learning techniques for enhanced accuracy (Thomas, 2009). At Stanbic Bank Wandegeya, traditional methods such as the five Cs of credit (Character, Capacity, Capital, Collateral, and Conditions) are complemented by advanced analytics to evaluate borrowers' creditworthiness (Stanbic Bank Annual Report, 2020).

Empirical research by Kagwa (2018) highlights the bank's adoption of credit scoring models, which has significantly reduced non-performing loans (NPLs) over the past decade. Moreover, regulatory frameworks, such as those outlined in the Financial Institutions Act (FIA) of Uganda (2004), mandate stringent credit risk assessment practices to ensure financial stability. This chapter delves into these theoretical frameworks and empirical studies, providing a comprehensive understanding of the current practices and challenges in credit risk assessment at Stanbic Bank Wandegeya.

For example, Stanbic Bank Uganda reported UGX 22.5 billion in credit loss for the year 2023. Included in the larger financial results, which demonstrated a robust performance overall, is this figure: the profit after tax increased to UGX 412 billion from UGX 357 billion in 2022. The bank's yearly report (Stanbic Uganda) (Stanbic Bank) highlighted their efforts to improve their financial stability and manage credit risk. What was the 2023 decline in Stanbic Bank Uganda's financial performance?Stanbic Bank Uganda's earnings after tax increased by 15.2% in 2023 to UGX 412 billion from UGX 357 billion in 2022. This expansion indicates a strong financial performance in spite of the difficult economic environment.

This successful result was facilitated by the bank's strategic efforts, which included flexible loan repayment terms and enhanced assistance for women-owned enterprises and smallholder farmers. Furthermore, Stanbic showed overall financial stability and growth as its total assets increased from UGX 9.1 trillion in 2022 to UGX 9.3 trillion in 2023 (Stanbic Uganda). Stanbic Bank Uganda had a strong year financially in 2022, with UGX 366 billion in earnings after taxes—a notable 33% rise from the year before. A 9.8% increase in credit demand and an overall increase in assets from UGX 8.7 trillion to UGX 9.1 trillion (Eagle Online) (Observer Uganda) were the main drivers of this success. By concentrating on examining the relationship between credit risks and financial performance.

A study was conducted to investigate the risk assessment and performance of commercial banks in Uganda. Nevertheless, commercial banks, including Stanbic Bank, are initiating some risk assessment policies, including client appraisal, credit monitoring, and credit analysis, to solve the problems. One wonders how these have solved the problem of credit risk.

1.3 Objectives of the study

1.3.1 General Objective of the Study

To examine the impact of credit risk assessment on financial performance of commercial banks in Uganda.

1.3.2 Specific Objectives of the study

•To find out the credit risk assessment policies used by Stanbic bank in Uganda.

• To examine the effect of credit risk assessment on the financial performance of Stanbic bank.

• To examine the challenges faced by commercial banks in credit risk assessment and suggest possible solutions.

1.4 Research Questions

• What are the credit risk assessment strategies adopted by commercial banks?

•What are the implications of credit risk assessment on financial performance of Stanbic Bank Uganda?

• What are the challenges faced by commercial banks in assessing credit risk?

1.5 Scope of the Study

1.5.1 Geographical Scope:

The study will be conducted at Stanbic bank Wandegeya branch, Bombo Rd, Kampala because of its strategic geographical location.

1.5.2 Content Scope.

The research is to study how credit risk affects financial performance of commercial banks, a case study of Stanbic bank Wandegeya branch, Uganda.

1.5.3 Time scope

This study will take place from September 2023to August 2024. This period was chosen since it is the time that was allocated for the researcher to conduct the study.

1.6 Significance of the Study

i. This research will provide valuable insights into the effect of credit risk management on profitability and stability. Effective management of credit risk leads to lower Non-Performing Loan (NPL) ratios and improved financial metrics such as Return on Assets (ROA) and Return on Equity (ROE), which are essential for maintaining investor confidence and operational efficiency.

ii. This research will provide a solid empirical foundation for investigating the relationships between credit risk and financial performance, this work will advance our understanding of finance and risk management.

iii. This research will also identify best practices and potential areas for further research, thereby advancing theoretical understanding and practical applications in the field.

iv. The study will aid in formulating strategies that enhance bank stability and contribute to the economic growth of Uganda by ensuring a resilient banking sector.

1.7 Justification.

Credit risk assessment is a critical component of the financial stability and performance of commercial banks. This research focuses on Stanbic Bank Uganda, a leading financial institution in Uganda, to provide insights into the impact of credit risk assessment on its financial performance. Credit risk is one of the primary risks faced by banks. Effective credit risk assessment helps in minimizing the likelihood of default and ensures that banks maintain healthy financial performance (Basel Committee on Banking Supervision, 2000). By studying Stanbic Bank Uganda, we aim to understand the specific methods and tools used for credit risk assessment and their efficacy in the Ugandan banking sector. Previous studies have

demonstrated a strong correlation between effective credit risk management and the financial performance of banks. Al-Tamimi and Al-Mazrooei (2007) discovered, for example, that banks with strong frameworks for assessing credit risk typically have superior financial results. By providing specific insights into this link, an analysis of Stanbic Bank Uganda will add to the body of knowledge on banking performance in developing nations.

Al-Tamimi and Al-Mazrooei (2007) discovered, for example, that banks with strong frameworks for assessing credit risk typically have superior financial results. By providing specific insights into this link, an analysis of Stanbic Bank Uganda will add to the body of knowledge on banking performance in developing nations. The banking industry in Uganda has certain traits and difficulties. Research like Kasekende (2008) have emphasized how crucial it is to comprehend local market characteristics in order to effectively manage risk.

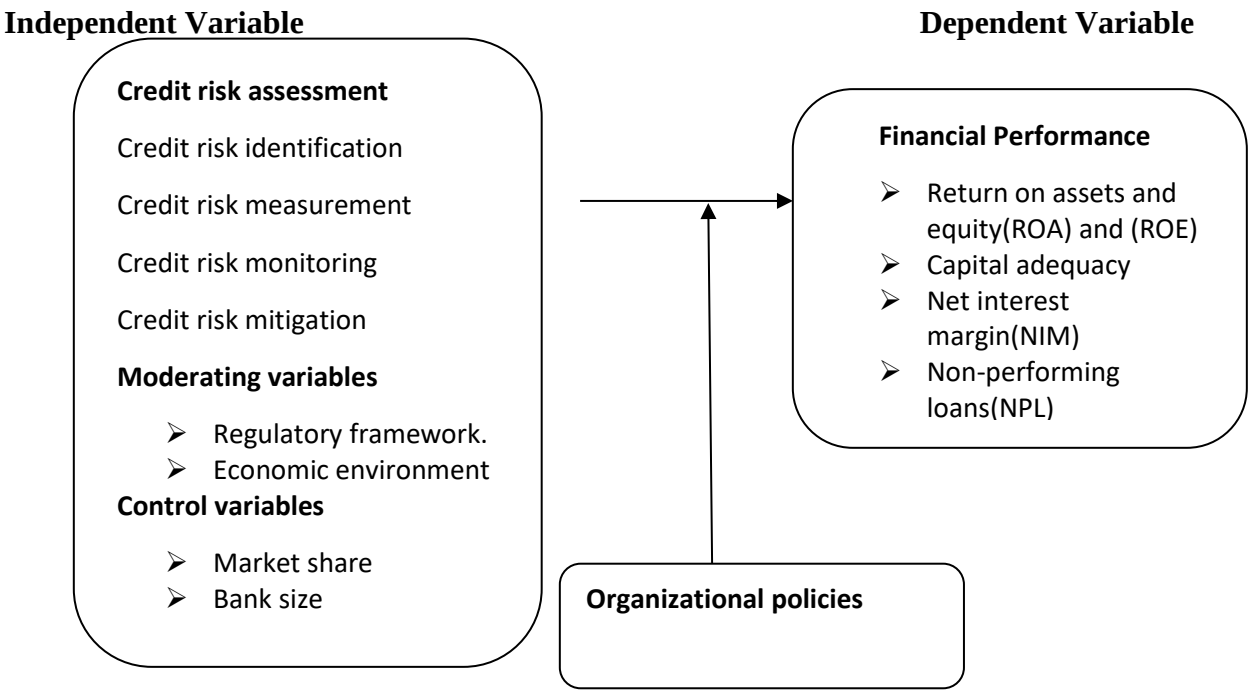
By focusing on Stanbic Bank Uganda, this research addresses the gap in the literature related to credit risk management practices in the Ugandan context. Uganda's regulatory environment has been changing, and risk management techniques are receiving more and more attention (Bank of Uganda, 2010). This study will look at the effects of these regulatory changes on Stanbic Bank Uganda's financial performance and how the bank responds to them. Policymakers and banking experts need this kind of study to evaluate the efficacy of the policies that are in place and pinpoint areas that require improvement.

This study will contribute to both academic research and practical banking knowledge by providing empirical evidence from Stanbic Bank Uganda, it will offer valuable insights for academics, policymakers, and practitioners interested in credit risk management and its impact on bank performance. Previous research by Li and Zou (2014) emphasized the need for case studies from diverse geographical locations to enrich the global understanding of credit risk practices.

1.8 Conceptual Framework

The conceptual framework illustrates the influence of working capital management on financial performance. Credit risk assessment is the independent variable conceptualized on credit risk identification, credit risk measurement, credit risk monitoring and credit risk mitigation. Financial performance, the dependent variable in this study is conceptualized by return on assets, profitability and liquidity (Garcia and Teruel 2007).

Figure 1 Conceptual Framework



Source: Okinyi, (2014), (Garcia and Teruel, 2007) and Ogoye, (2013) as modified by the researcher 2024.

A conceptual framework above illustrates the three elements of independent variables (Credit risk assessment) including; Credit risk identification, credit risk measurement, credit risk monitoring, credit risk mitigation.The dependent variable is financial performance with dimensions of; return on assets(ROA), return on equity(ROE), net interest margin(NIM), non-performing loans(NPL).

Favorable changes in credit risk assessment are thought to have a favorable impact on the bank's financial performance. However, this relationship may be impacted either positively or negatively by the moderating variables of organizational policy. For example, financial performance will be positively impacted by favorable organizational rules that maintain superior credit risk assessment, and vice versa. Regarding the aforementioned, Garcia and Teruel (2017) state that having effective working capital management is essential to raising financial performance metrics like profitability, return on assets, and liquidity.

1.9 Definition of Key Terms

Credit risk assessment.

Credit risk assessment refers to the process by which a bank evaluates the risk associated with lending to a particular borrower. In this framework, credit risk assessment is the independent variable influencing financial performance of the bank which is the dependent variable.

Risk Identification: The process of recognizing potential credit risks. This involves analyzing borrowers' credit histories, financial conditions, and the overall economic environment (Duffie & Singleton, 2003).

Risk Measurement: Quantifying the identified risks using various models and metrics. This can include credit scoring models, probability of default (PD), and loss given default (LGD) calculations (Saunders & Allen, 2002).

Risk Monitoring: This refers to continuous reviewing and tracking and of borrowers' creditworthiness and credit portfolio performance. This helps in identifying early signs of default and taking preventive measures (Jorion, 2019).

Risk Control and Mitigation: Implementing measures to mitigate identified risks, such as setting credit limits, requiring collateral, and using credit derivatives (Crouhy, Galai, & Mark, 2000).

Financial performance

The financial performance of Stanbic Bank Uganda is the dependent variable, which is influenced by the effectiveness of credit risk assessment. Financial performance is measured through several indicators:

Profitability.

This shows a company's profitability in relation to its total assets. According to Ogbodo, Amahalu, and Abiahu (2017), the return on assets (ROA) ratio shows how well management is using the company's whole asset base to generate profits. The more effectively management uses its asset base, the higher the return. Loth (2005). The ROA ratio, which is given as a percentage, is computed by dividing net income by the average total assets.

Loan Performance: The overall health and performance of the bank's loan portfolio. This includes the percentage of performing loans and the growth in loan portfolios (Berger & DeYoung, 1997).

Non-Performing Loans (NPLs): The percentage of loans that are delinquent or about to become delinquent is known as the NPL ratio; reduced NPLs are a sign of improved credit risk management (Fofack, 2021).
Capital Adequacy: The Capital Adequacy Ratio (CAR) is a common way to quantify a bank's capital buffer against possible losses. This guarantees that a suitable level of loss can be absorbed by the bank (Basel Committee on Banking Supervision, 2000).

Moderating factors

Moderating variables are factors that influence the relationship between credit risk assessment and financial performance. In this framework, two key moderating variables are considered:

Bank Size and Market Share: Larger banks with significant market shares may have different risk profiles and resources for risk management compared to smaller banks (Demirgüç-Kunt & Huizinga, 1999).

Regulatory Environment: The regulatory framework in Uganda, including guidelines from the Bank of Uganda, impacts credit risk assessment conduction and how financial performance is reported (Kasekende, 2008).

1.10. Conclusion

This chapter served as a general introduction to the subject matter and revealed both the overall and the specific goals of the research. In order to accomplish the primary goal of the study, it is centered on the conceptual framework that explains the many dimensions and interactions between the various variables. The primary goal of the study is revealed in the following chapter, which also examines the literature evaluation on working capital and financial performance of private health care organizations in Uganda.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.0 Introduction.

This chapter talks about Uganda's commercial banks, financial performance is also covered in this chapter. Based on the study objectives, the chapter provides an overview of the concepts, theories, and real literature review. The background of the banking industry in Uganda has been taken into consideration, along with literature on credit risk assessment and financial performance in theoretical and empirical terms.

2.1Theoretical Review.

2.1.1 Credit Risk Assessment Theories.

Credit risk assessment theories are crucial in understanding the methodologies and practices used by banks to evaluate credit risk. One fundamental theory is the Credit Risk Theory, which posits that lenders must evaluate the likelihood of a borrower defaulting on a loan (Singleton, 2023). The Asymmetric Information Theory (Akerlof, 2022) highlights the information imbalance between borrowers and lenders, which can lead to adverse selection and moral hazard problems. Credit risk assessment theory focuses on evaluating the likelihood that a borrower will default on their financial obligations. This theory is crucial for financial institutions since it helps them mitigate and manage the risks which are associated with lending. The evolution of credit risk assessment has been shaped by various approaches and models over the years. One of the earliest methods for credit risk assessment was Fisher's discriminant analysis, which used statistical techniques to distinguish between bad and good borrowers based on predictors (Fisher, 1936) and financial ratios.

Altman's Z-Score (1968).

Edward Altman developed the Z-score model, which uses various financial ratios to predict bankruptcy. The Z-score is calculated using a combination of five financial ratios, weighted by coefficients derived from a sample of firms (Altman, 1968). This model became a cornerstone in credit risk assessment for its simplicity and effectiveness.There were also oter approaches tat were used and include;

Logistic Regression (1980s): These models became popular in the 1980’s and were used for assessing credit risk, allowing for the estimation of the probability of default (PD) based on various financial and non-financial variables (Ohlson, 1980). These models helped in enhancing decision-making in credit lending and provided a probability in interpretation.

Structural Models (1970s onwards): Structural models, such as the Merton model (Merton, 2019), treat a firm's equity as a call option on its assets. These models use option pricing theory to assess the probability of default by evaluating the firm's asset value relative to its debt obligations.

Stress testing and Scenario Analysis: Post the 2008 financial crisis, regulatory frameworks emphasized the importance of stress testing and scenario analysis to assess the resilience of financial institutions under adverse conditions (Basel III, 2010). These methods simulate various economic scenarios to evaluate the impact on borrowers' ability to repay.

2.2 Regulatory and Risk Management Frameworks

Basel Accords

The Basel Committee on Banking Supervision has issued several accords to standardize and improve risk management practices globally. Basel II (2004) introduced the concept of Internal Ratings-Based (IRB) approaches for credit risk, allowing banks to use their own models for regulatory capital requirements. Basel III (2010) further strengthened these frameworks by introducing more stringent capital and liquidity requirements.

2.3 Profitability Theories

DuPont Analysis (1919): Developed by the DuPont Corporation, this model disaggregates return on equity (ROE) into its constituent components which include profit margin, and financial leverage and it allows a detailed analysis of the factors driving to profitability.

Camel Model: This model assesses bank performance based on five factors: Capital adequacy, Asset quality, Management quality, Earnings, and Liquidity (Barr et al., 2002). The Bank of Uganda uses this framework to evaluate the financial health of commercial banks.

2.4 Efficiency Theories

Data Envelopment Analysis (DEA) (Charnes et al., 1978): This non-parametric method evaluates the efficiency of decision-making units, such as banks, by comparing their inputs and outputs. Studies like Muwanga (2023) have applied DEA to assess the efficiency of Ugandan banks.

Stochastic Frontier Analysis (SFA) (Aigner et al., 1977): SFA is used to estimate the efficiency of banks by separating random errors from inefficiencies. Kiyingi and Kasozi (2021) used SFA to analyze the efficiency of commercial banks in Uganda.

Loanable Funds Theory: This theory explains the supply and demand for loanable funds and its impact on interest rates and liquidity (Wicksell, 2022). In the Ugandan context, banks balance the supply of deposits and the demand for loans to maintain liquidity and profitability.

Modigliani-Miller Theorem (1958): This theorem states that in a perfect market, a firm's value is unaffected by its capital structure. However, in practice, banks need to maintain optimal capital structures to ensure solvency. The Bank of Uganda mandates minimum capital requirements to safeguard the solvency of commercial banks (Modigliani & Miller, 1958).

2.5 Conceptual Review.

2.5.1 Review on credit risk assessment.

Credit risk assessment refers to the process by which a bank evaluates the risk associated with lending to a particular borrower. It encompasses several components which include; risk identification, risk measurement, risk monitoring, and risk mitigation.

This review involves analyzing borrowers' credit history, financial conditions, and the overall economic environment (Duffie & Singleton, 2003). Credit risk assessment further quantifies the identified risks using various models and metrics which include credit scoring models, probability of default (PD), and loss given default (LGD) calculations (Saunders & Allen, 2002). Continuous tracking and reviewing of borrowers' creditworthiness and the performance of credit portfolios helps in identifying early signs of default and taking preventive measures (Jorion, 2007).

This emphasizes the implementation of measures to mitigate identified risks, such as setting credit limits, requiring collateral, and using credit derivatives (Crouhy, Galai, & Mark, 2000).

2.5.2 Financial performance.

This refers to a measurement of an organization's performance in terms of using its resources to create value (Adekunle&Aghedo,2014).

The level of achievement of financial objectives is known as financial performance. (Healy, Palepu, 2008). It is possible to achieve positive financial performance by eliminating waste from the systems and processes used in benefits services. The degree to which a private sector organization fulfills its mission and defined goals in terms of economy, effectiveness, and efficiency is its "critical success factor." The subjective indicator of a company's ability to turn a profit from its main line of business is its financial performance. Otley (2016). Financial management calculates the monetary effects of a company's operations and policies. It is

employed to gauge the companies over all financial health over a given period of time. (Gartenberg, Prat & Serafeim, 2019).

A number of studies have been conducted to investigate the factors that influence financial performance. Sidra and Attiya (2013), for example, used corporate governance, ownership structure, economic indicators, and risk management as independent variables to investigate the determinants of financial success. From that, it can be concluded that performance is positively impacted by the debt to equity ratio and negatively impacted by the long-term debt to total assets. Nevertheless, the focus of this study was business firms rather than financial institutions, which creates a void that needs to be filled in the case of Stanbic Bank Uganda. However, the results were derived solely from quantitative data, hence a mixed approach was stressed in this investigation using both qualitative and quantitative information. And in the study, financial performance is studied in terms of profitability, liquidity, return on assets, capital adequacy and loan performance as explained below;

2.5.3 Profitability:

This shows a company's profitability in relation to its total assets. According to Ogbodo, Amahalu, and Abiahu (2017), the return on assets (ROA) ratio shows how well management is using the company's whole asset base to generate profits. The more effectively management uses its asset base, the better the return Loth (2018). The ROA ratio, which is given as a percentage, is computed by dividing net income by the average total assets.

Return on Assets: The amount of profitability is determined by return on assets. The return on total assets after taxes and interest is calculated using this ratio. The management's effectiveness in utilizing business assets to produce profits is demonstrated by the return on total assets or investment (Sartono, 2015). Lestari and Sugiharto (2007) state that the ratio used to calculate the net profit from asset utilization is called return on assets. Stated differently, a greater ratio indicates that assets are more productive in generating net profits. This makes the business even more alluring to potential investors. A corporation can attract more investors by making itself more rate of return or dividends appealing, as this will result will even be higher. Additionally, as a result of this, the company's stock price will rise on the capital market, which will in turn influence ROA. Next Return on Assets, according to Kasmir (2012), is a ratio that illustrates the return on the quantity of assets used by the business. Therefore, it can be concluded that a business that has a high return on assets will draw capital from investors because of the belief that the business can make significant profits and that this will eventually

increase the value of dividends that the company's shareholders will receive. The company's stock price in the capital will be impacted by the large number of investors interested in its shares.

Liquidity: The ability of the company to pay debts as they become due without interfering with its regular business operations is referred to as liquidity. It shows how much of the current liabilities will be paid for by the liquidation of current assets. Working capital is a typical metric for assessing liquidity (Bruce, 1996). Working capital is defined as current assets less current liabilities, which include cash, inventory, and receivables, less debt commitments that are due within a year.

Net interest margin: This is defined as the rate of return on investment. If there will be an unjustifiable over investment in current assets, this would negatively affect the rate of return on investment, (Raheman and Nasr, 2007).

Loan Performance: The overall health and performance of the bank's loan portfolio. This includes the percentage of performing loans and the growth in loan portfolios (Berger & DeYoung, 2022).

Non-Performing Loans (NPLs): The proportion of loans that are in default or close to being in default. Lower NPLs indicate better credit risk management.

Capital Adequacy: The bank's capital buffer against potential losses, typically measured by the Capital Adequacy Ratio (CAR). This ensures the bank can absorb a reasonable amount of loss (Basel Committee on Banking Supervision, 2000).

Moderating factors

Moderating variables are factors that influence the relationship between credit risk assessment and financial performance. In this framework, two key moderating variables are considered:

Bank Size and Market Share: Larger banks with significant market shares may have different risk profiles and resources for risk management compared to smaller banks (Demirgüç-Kunt & Huizinga, 1999).

Regulatory Environment: The regulatory framework in Uganda, including guidelines from the Bank of Uganda, impacts how credit risk assessment is conducted and how financial performance is reported (Kasekende, 2008).

2.5 Empirical Studies

2.5.1 Credit risk management and financial performance.

Credit risk management refers to the systematic approach used by financial institutions to identify, assess, monitor, and mitigate, the risk of loss due to borrower's failure to pay their loans (Natufe, Evbayiro 2023). Numerous studies have explored the relationship between credit risk management and financial performance globally. Al-Tamimi and Al-Mazrooei (2018) compared national and foreign banks in the UAE, finding that robust credit risk management practices significantly enhance financial performance. Li and Zou (2014) studied European banks and confirmed that effective credit risk management positively impacts profitability and reduces non-performing loans (NPLs).

Credit risk management is crucial for financial institutions as it directly impacts their financial performance and stability. Recent studies have increasingly focused on understanding how practices influence the financial outcomes of banks and other financial entities, especially in the wake of global financial crises and evolving regulatory landscapes.

Studies have shown that effective CRM practices, including the assessment and mitigation of credit risk, significantly enhance the financial performance of banks. For instance, research on Nigerian deposit money banks from 2010 to 2021 indicates that variables such as capital adequacy ratio (CAR), risk asset ratio (RAR), non-performing loans ratio (NPLR), and bank size (SZ) are critical determinants of return on equity (ROE) (MDPI).

Similarly, commercial banks in Tanzania benefit from robust CRM practices. Key practices include stringent loan assessment procedures and regular monitoring, which help maintain asset quality and financial performance.

The relationship between credit risk and financial performance is complex and multidimensional. A study focusing on Ethiopian commercial banks highlights that both macroeconomic factors and bank-specific characteristics play significant roles in credit risk management and, subsequently, financial performance.

It goes on to explain that credit risk management procedures are greatly influenced by regulatory frameworks. For instance, the Central Bank of Uganda's policies, which include the criteria for capital adequacy and uniform accounting year-end, have forced banks to implement stricter credit risk management procedures (MDPI).

The integration of advanced technologies such as machine learning and big data analytics into credit risk management processes has been a game-changer. These technologies enable more accurate risk assessment and better decision-making, thus improving the overall financial performance of banks.

2.5.2 Loan performance management and financial performance.

The ability of a loan to make principal and interest payments on time during its duration is referred to as loan performance (Mlambo, Mapiye 2013). It includes a number of important metrics, including the percentage of non-performing loans (NPLs) in a lender's portfolio, the recovery rate, and the default rate. In essence, loan performance gauges how well a bank is able to retrieve the money it has provided to borrowers in order to maximize profits and minimize losses.

Non-performing loans are loans in which the borrower is not making the scheduled payments for a specified period, typically 90 days or more. High levels of NPLs indicate poor loan performance. Kasekende et al. (2020) highlight that the ratio of NPLs to total loans is a critical measure of loan performance, with high NPL ratios signaling increased risk and potential instability in the banking sector.

Loan recovery rate refers to the percentage of a loan that a lender recovers succeessfully after a default. Tumwine (2015) emphasize the importance of high recovery rates as indicative of effective loan performance, suggesting that banks with efficient recovery processes experience better financial outcomes and lower losses.

The percentage of loans that don't make their agreed-upon payments is known as the default rate. Lower default rates are a sign of good loan performance, according to Mwesigwa and Musoke (2018), who also highlight how effective borrower assessment and credit risk management methods contribute to this.

2.6 Summary of literature Review

The literature on credit risk management and financial performance is reviewed in this chapter. The credit risk assessment theories, which are the theories in use, assert that comprehending a firm's financial flows requires an understanding of how credit risk management practices are used. An organization must analyze the value in liquidation using financial reports and the income statement of the business's running activities in order to construct the idea of liquidity.

CHAPTER THREE.

RESEARCH METHODOLOGY.

3.0 Introduction

This chapter outlines the approach the researcher employed to carry out this investigation in order to provide the intended results of an objective study report. It includes the study population, research design, sample size and selection, sampling procedures and techniques, data sources, data collection methods and techniques, instrument validity and reliability, data collection process, day analysis, variable measurement, and ethical consideration.

3.1 Research Design

A descriptive survey design with self-designed questions will be used for the study. Self-designed questions were utilized in the study because they let the researcher observe many factors without having any control over them. The research methodology used in the study was mixed. Both qualitative and quantitative research methodologies are taken into account in this method. According to Etyang (2018), this is the most effective method because it uses quantitative data to precisely quantify findings, while qualitative data are used to characterize subjective assessments, analyze, and interpret respondents' attitudes, opinions, and behaviors as expressed in interview transcripts, thereby supporting the findings from the quantitative data analysis.

3.2 Area of the study

The study aimed at examining the effect of credit risk assessment and financial performance of commercial banks in Uganda, a case of Stanbic bank Uganda. The study was carried out at Stanbic bank Wandegeya branch, Bombo Rd, Kampala. It is focused on components such as credit risk assessment and financial perfomance mangement.

Return on assets, profitability and liquidity (Garcia and Teruel 2007). I chose this study because it gives a deeper understanding of how to manage financial funds and the location was considered because most commercial banks are located in Kampala.

3.3 Study Population

A study population is a collection of people who are part of the group being studied and who have comparable visible traits. Creswell (2022). For the objectives of this study, the researcher utilized the Wandegeya branch of Stanbic Bank, which has multiple branches throughout various regions in Uganda, as her case study. The population is defined as that from which measurement samples were obtained and from which the researcher derived findings (Enarson

et al. 2014). The study's population consisted of 35 participants, including six members of top management, bank tellers, internal auditors, and other support staff. Because these officers are directly responsible for controlling credit risks, which are crucial to establishing the organization's financial performance, the population makeup was chosen. According to Asiamah, Mensah, and Otenga-Abayire (2017), population specification is necessary for both qualitative and quantitative study documentation.

3.4 Sample Size.

The appropriate size was selected using the formula developed by Yamane (1962), where a confidence level of 92% was considered. The sample size of 35 respondents was used by the researcher from a study population of 38.

$n=N/1+N(e)^2$

Where n = Sample size

e =Confidence level

N = Total population

Therefore: $n= 38/1+38(0.05)^2$

3.4.1 Sampling Techniques and Procedure.

The researcher used simple random sampling as Enon (1995) asserts that the simple random sampling technique is beneficial because it lessens bias and prejudice in the selection of respondents. Every response had an equal chance of getting chosen thanks to the technique. The responders were chosen using the procedure based on their availability in the bank and random numbers. By using the register that was made accessible, each member of the study population was given a random number. The researcher then selected a random number from this list until the necessary number of responses was obtained.

3.5 Source of data

The researcher used both primary and secondary data sources for the study where the primary source involved the use of questionnaires whereas the secondary source involved the use of reports

3.5.1 Primary data

According to Kothari (2004), primary data are those which are collected afresh and for the first time. The primary data was collected from Stanbic bank branch manager, supervisor and other

workers. This involved giving questionnaires to respondents and guiding them on how to respond to ensure accuracy in data collection.

3.5.2 Secondary Data

Conversely, secondary data is defined by Kothari (2004) as information that has previously been gathered and processed using statistics by another party. The secondary data served as evidence for the study's empirical conclusions. The Stanbic bank reports, particularly the financial statements, provided this information. This data was crucial because it allowed the researcher to add to the information he had already gathered from respondents, increasing the sampling size and ensuring the validity of the research findings (Tran et al., 2013).

3.6 Data Collection Methods

3.6.1 Questionnaire Survey

The study used a questionnaire survey data collection method. The questionnaire involved structured questions relating to the study variables. It involved questions relating credit risk performance. It had both open and closed questions in English to ease the mode of answering since it was literate staff.

3.6.2 Document Review

Documentary review is a data collection method where the researcher primarily gathers data for further analysis and inference-making by critically examining recorded information in the form of documents (both hard copy and soft copy) related to the study topic under investigation (Etyang, 2018). In this instance, the researcher looked into internal reports and papers from the analysis unit as well as any pertinent external documents.

3.7 **Validity and Reliability**

3.7.1 **Validity**

This refers to the degree to which the research instrument accurately assesses the variables the researcher intends to measure is referred to as validity. Accordingly, validity refers to the study instrument's reliability, correctness, or accuracy (Etyang, 2018). The validity index was tested using the following formula.

$$\text{Content Validity Index (CVI)} = \frac{\text{No. of items regarded relevant by judges}}{\text{Total number of items judged}}$$

Table 1: Showing results for Validity Test

No of Experts	No of Valid Items	Total No of Items	Index Computed
1	32	35	0.8
2	34	35	0.9
3	31	35	0.7
Average			(2.4/3)= 0.8

Source: Field data (2024)

Since the CVI of 0.8 is higher than 0.7, as advised by Amin (2005), the instrument used for this investigation was deemed legitimate.

3.7.2 Reliability

The reliability of a measure indicates the extent to which it is without bias and hence ensures consistent measurement across time and the various items in the instrument. In other words, the reliability of a measure is an indication of the stability and consistency with which the instrument measures the concept and helps to assess the goodness of a measure (Sekaran & Bougie, 2016). There was test-retest reliability in the study. Test-retest reliability is defined as the reliability coefficient that is acquired by repeating the same measure twice, according to Sekaran and Bougie (2016).

Table 2: Reliability results

Reliability Results		
Item	Cronbach's Alpha	Number of items
Credit scoring model accuracy	0.79	2
Regular credit risk assessment procedures	0.79	3
Impact of credit risk non-performing loan ratios	0.78	3

Credit risk impact on profitability	0.80	2
Average	3.16/4=0.79	

Source: Field data (2023)

3.8 Data Collection Instruments

3.8.1 Questionnaire Guide

A tool for gathering quantitative and/or qualitative data is the questionnaire guide (Pritha, 2021). The primary tool for gathering data was the questionnaire. The other experienced staff members who participated in the survey completed self-administered structured questionnaires that were utilized to gather data. The rationale behind the selection of these structured surveys is their ability to ensure respondent confidentially while also saving time. It is a useful technique for gathering a variety of data from a sizable number of people, known as respondents (Roopa & Satya, 2012). In order to cover more material in a shorter amount of time especially for those respondents who had significant time constraints—closed-ended questions were necessary.

3.8.2 Document Review Checklist

According to Etyang (2018), a document review checklist is a tool that helps researchers conduct pertinent and insightful reviews of papers pertaining to their areas of interest. The existing papers and policies were utilised in the study. A list of the papers that were examined along with the review status were part of a documentary review. The various materials that were studied were enumerated by the researcher in chronological order, and the examination process took thirty minutes.

3.9 Data Analysis

3.9.1 Quantitative Analysis

The data was analyzed by the researcher using quantitative methods. Following the respondents' completion of the questionnaires, the data were processed, categorized and coded,. The results of the analysis were presented using tables and figures. An investigation on the relationship between credit risk assessment and Stanbic Bank's financial performance was conducted using inferential statistical regression and correlation. Tables were used to present the results.

3.9.2 Qualitative Data

Data analysis, editing, and coding of the questionnaire items was used to cross-check and interpret qualitative data and generate theoretical relations for drawing conclusions. The content of the qualitative data was analyzed by carefully transcribing recorded interviews, looking for similarities and differences to identify themes and develop categories according to the objectives (Bryman and Bel, 2007). The interaction of the results, which were prompted by both quantitative and qualitative data, allowed the researcher to formulate conclusions and then offer suggestions.

3.10 Measurement of variables

The dependent variable in this study was financial performance, which was assessed in terms of profitability, liquidity, and return on assets. Conversely, cash management, inventory management, and receivables management were used to gauge working capital management. In this instance, the researcher used a 5-Likert scale, with 1 being strongly disagree and 5 being strongly agree, for each of the assertions. In this sense, the measurement scale ranging from 1 to 5 is merely intended to gauge the intensity of the respondents' viewpoint regarding a specific statement. Here, the person who checks 1 indicates strong agreement, 2 disagree, 3 neutrality, 4 agreement, and 5 strong disagreement.

3.11 Ethical Considerations

While conducting their research, researchers should adhere to certain ethical considerations (Schulze 2002). The study's respondents' identities were kept anonymous by the researcher out of respect for human dignity. In this case, the supervisor requested a letter of introduction from Uganda Christian University's faculty of business in order to obtain authorization to carry out the study. The respondents in the study region were shown this letter asking for their consent to carry out the investigation. After receiving permission, the researcher sent the respondents the surveys, and ever then, they have maintained a positive rapport built on trust and confidentiality.

3.11 Limitations to the study

The researcher encountered the following limitations while conducting the study: Some respondents expressed reluctance to participate in the investigation; however, the researcher overcame this obstacle by thoroughly explaining the study's significance to both the respondents and the community at large. The researcher also had to deal with the issue of not being able to locate every responder during the study period since they were too preoccupied

with organizational tasks. However, in order to gather accurate and legitimate data for the study, the researcher worked with the hospital administration to create a schedule that worked for every responder. The study encountered a problem when certain participant categories failed to provide accurate and responsible answers to the instruments used, which increased the possibility of disorganized data that could have an impact on the study's quality. The researcher made an effort to first reassure the different participants about the confidentiality of the data they were going to give the researcher.

3.12 Conclusion

The study design and methodology that were employed to get the data were covered in this chapter. Chapter Four was centered on the instruments that were going to be utilized for the presentation analysis and conversations. The techniques used for data collection, processing, and interpretation typically produced trustworthy results, notwithstanding certain limitations. As a result, the field results and the records based on the questions and objectives were given and examined in the next chapter.

CHAPTER FOUR.

Presentation, interpretation and discussion of study findings.

4.0 **Introduction.**

This chapter presents, interprets and analyses the data where tables and tables and figures were made in accordance with the objectives of the study. This chapter was further divided into two divisions namely; demographic characteristics of respondents and findings on objectives of the study.

4.1 **Biographic data of the respondents.**

Table 3: Gender composition of the respondents.

	frequency	**percentage**	**Valid percentage**	**Cumulative percentage**
Male	**15**	**42.9**	**42.9**	**42.9**
Female	**20**	**57.1**	**57.1**	**100**
Total	**35**	**100**	**100**	

Source: Primary data.

The research finding was set to determine the gender pattern of employees at Stanbic Bank about the research problem and the researcher was seen that majority of the respondents were female who were 57.1%(20)while the minority were males that comprised 42.9%(15) of the total number of the respondents. This reflected that females were more dominant to answer the research questions compared to males.

Table 4: Age composition of respondents.

	Frequency	**Percentage**	**Valid percentage**	**Cumulative percentage**
20-29	**14**	**40.0**	**40.0**	**40.0**
30-39	**12**	**34.3**	**34.3**	**74.3**
40-49	**5**	**14.3**	**14.3**	**88.6**
50 and above	**4**	**11.4**	**11.4**	**100.0**
Total	**35**			

Source: Primary data.

The above was set to determine the age of respondents and it was seen that majority of the respondents were between 21-30 years who made a percentage of 45.7%(16) of the total number of respondents and they were closely followed by 31-40years age bracket who made a percentage of 40.0%(14) of the total number of respondents and lastly was the 41-50 years and above age bracket which contributed 14.3%(5) of the total respondents.

Table 5: Level of education of respondents.

	Frequency	**Percentage**	**Valid percentage**	**Cumulative percentage**
Diploma	7	20.0	20.0	20.0
Bachelors	14	40.0	40.0	60.0
Post graduate	5	14.3	14.3	74.3
Masters	4	11.4	11.4	85.7
Doctorate	2	5.7	5.7	91.4
Others	3	8.6	8.6	100.0
Total	35	100.0	100.0	

Source: Primary data.

The respondents were asked their level of education and most had attained a bachelors degree with 40%(14), followed by the diploma holders who constituted 20%(7), followed by the post graduates who constituted 14.3%(5), followed by respondents who had masters degree and they constituted 11.4%(4), followed by respondents that had a doctorate and constituted 5.7% and professional courses were reported by 8.6%(3) of the respondents summing up to the total number of respondents which is 35.

Table 6: Composition of positions held by respondents.

	Frequency	**Percentage**	**Valid percentage**	**Cumulative percentage**
Top management level	**9**	**25.7**	**25.7**	**25.7**

Middle management level	**15**	**42.9**	**42.9**	**68.6**
Supervisory level	**11**	**31.4**	**31.4**	**100.0**
Total	**35**	**100.0**	**100.0**	

Source: Primary data

In the table above, the researcher asked about the positions held in the organization and from the table above, it was seen that majority of the respondents were from the middle management 42.9%(15), followed by the supervisory level 31.4 and the minority were the top management who were 25.7%.

Table 7: Period spent in service

	Frequency	**Percentage**	**Valid percentage**	**Cumulative percentage**
0-2 years	**7**	**20.0**	**20.0**	**20.0**
2-4 years	**10**	**28.6**	**28.6**	**48.6**
4-6 years	**7**	**20.0**	**20.0**	**68.6**
above 6 years	**11**	**31.4**	**31.4**	**100.0**
Total	**35**	**100.0**	**100.0**	

Source: Primary data

In this table, the researcher asked about the period the employees had spent at Stanbic bank and majority of the employees had spent over six years who constituted 31.4%, followed by the respondents who had spent 2-4 years and were 28.6%, next were the respondents who had spent less than two years and respondents who had spent 4-6 years and each bracket constituted 20.0% each

Table 8: Showing Credit Risk Assessment Practices

STATEMENT	**SA**	**A**	**N**	**D**	**SD**	**AV**	**SDn**
The institution involves employees in the credit risk assessment process	**14**	**14**	**5**	**2**	**0**	**7.0**	**6.63**

The credit department often conducts credit risk assessments	**20**	**7**	**8**	**0**	**0**	**7.6**	**7.64**
The bank communicates policies and procedures regarding credit risk assessment to employees	**14**	**13**	**4**	**1**	**3**	**7.0**	**6.04**
The credit risk process is transparent in your bank	**10**	**16**	**8**	**1**	**0**	**7.6**	**5.94**
Existence of inflation accelerates the number of creditors	**13**	**8**	**5**	**5**	**4**	**7.0**	**3.67**
The credit risk supervisor sends notifications to creditors in case of delay in payments	**8**	**15**	**7**	**5**	**0**	**7.0**	**5.43**
The credit risk assessment tools used by your bank are adequate	**11**	**14**	**10**	**0**	**1**	**7.2**	**6.30**
The bank provides training on credit risk assessment and processes	**14**	**10**	**8**	**3**	**0**	**7.0**	**5.0**
Field officers visit the creditors premises to assess their level of earning	**15**	**11**	**6**	**3**	**0**	**7.0**	**6.04**

Involvement of Employees in the Credit Risk Assessment Process: The majority of respondents agree that the institution involves employees in the credit risk assessment process, with a combined 28 out of 35 respondents (80%) indicating "Strongly Agree" (14) or "Agree" (14). A small number expressed neutrality (5), and very few disagreed (2). The mean score for this statement is 7.0, with a standard deviation of 6.63, suggesting a strong positive consensus with some variability in responses.

Frequency of Credit Risk Assessments by the Credit Department: A significant proportion of respondents (20 out of 35, or 57%) "Strongly Agree" that the credit department often conducts credit risk assessments, with an additional 7 respondents (20%) agreeing. A total of 11 respondents are either neutral or disagree (8 neutral, 3 disagree), with none expressing strong disagreement. The mean is 7.6, and the standard deviation is 7.64, indicating overall agreement but with a higher variability in responses, suggesting mixed perceptions among employees.

Communication of Policies and Procedures Regarding Credit Risk Assessment: The data shows that 27 respondents (14 "Strongly Agree" and 13 "Agree") believe that the bank

effectively communicates its policies and procedures regarding credit risk assessment to employees. A small proportion were neutral (4), disagreed (1), or strongly disagreed (3). The mean score for this statement is 7.0, with a standard deviation of 6.04, which indicates general agreement with some spread in responses.

Transparency of the Credit Risk Process: The responses indicate that a majority find the credit risk process to be transparent within the bank, with 26 out of 35 respondents (74%) either agreeing (16) or strongly agreeing (10). However, 12 respondents remain either neutral (8) or disagree (4). The mean score is 7.6, and the standard deviation is 5.94, reflecting positive feedback on transparency but with noticeable variability.

Impact of Inflation on the Number of Creditors: Opinions on the impact of inflation on the number of creditors are more varied. While 13 respondents "Strongly Agree" and 8 "Agree" (combined 60%), there is a considerable proportion who are neutral (5) or disagree (5) and even strongly disagree (4). The mean score is 7.0, with a standard deviation of 3.67, highlighting more diverse opinions on this matter.

Notifications to Creditors in Case of Delayed Payments: The responses are somewhat divided on whether the credit risk supervisor sends timely notifications to creditors in case of delayed payments. While 8 "Strongly Agree" and 15 "Agree" (combined 66%), a notable proportion of respondents are neutral (7) or disagree (5). The mean is 7.0, with a standard deviation of 5.43, suggesting mixed views on this practice.

Adequacy of Credit Risk Assessment Tools: The adequacy of the credit risk assessment tools used by the bank received mixed feedback, with 25 respondents (11 "Strongly Agree" and 14 "Agree") expressing a positive opinion. However, 10 were neutral, and 1 disagreed. The mean score is 7.2, and the standard deviation is 6.30, indicating overall positive feedback with some variability.

Training on Credit Risk Assessment and Processes: Respondents largely agree that the bank provides training on credit risk assessment and processes, with a mean of 7.0 and a standard deviation of 5.0. A total of 24 respondents (14 "Strongly Agree" and 10 "Agree") affirmed this, while 6 were neutral, 3 disagreed, and 2 strongly disagreed.

Field Officers' Assessment of Creditors' Earnings: Regarding the assessment of creditors' earnings by field officers, 15 "Strongly Agree" and 11 "Agree" (combined 74%) that such practices are conducted, with 6 neutral and 3 disagreeing. The mean score is 7.0, and the

standard deviation is 6.04, reflecting overall positive feedback but with some divergence in opinions.

Table 9: Impact of Credit Risk on Financial Performance.

STATEMENT	SA	A	N	D	SD	AV	SDn
In your view, effective credit risk management impact the bank's financial performance	12	15	5	2	1	**4.00**	**0.99**
Do credit risk issues contribute to financial losses at the bank?	**11**	**14**	**7**	**3**	**0**	**3.94**	**0.92**
Do you think improved credit risk management can improve profitability of the bank?	**13**	**12**	**7**	**1**	**2**	**3.94**	**1.09**
Does poor credit risk assessment affect the bank's ability to retain and attract customers?	**11**	**13**	**2**	**5**	**4**	**3.49**	**1.22**
Is the bank's current credit risk management tools effective on reducing non-performing loans?	**15**	**10**	**4**	**2**	**4**	**3.86**	**1.33**
The bank's credit risk management practices are a competitive advantage in the industry	**12**	**15**	**1**	**7**	**0**	**3.91**	**1.08**
The bank's credit risk management is positively influencing its financial performance	**10**	**14**	**6**	**4**	**1**	**3.80**	**1.06**
Do credit risk challenges affect the financial goals of the bank	**14**	**12**	**5**	**3**	**1**	**4.00**	**1.07**
Do you agree that the financial stability of the bank is linked to its practices on credit risk management	**16**	**14**	**0**	**5**	**0**	**4.17**	**1.00**

The first statement examined if effective credit risk management impacts the bank's financial performance. A mean of 4.00 and a standard deviation of 0.99 were the results which suggested a strong agreement among respondents. This indicated that most respondents believed that appropriate management of credit risk is important for enhancing financial performance.

Statement two focused on whether credit risk issues contribute to financial losses at the bank. The mean of 3.94 and a relatively low standard deviation of 0.92 show that there is general agreement, with minimal variation in opinion which underscores the perception that inadequate management of credit risk can lead to significant financial setbacks.

For the statement regarding the potential for improved credit risk management to enhance profitability, the mean is 3.94, and the standard deviation is 1.09. This reflects a consensus that better credit risk management can positively affect the bank’s profitability, though there is a slightly broader range of opinions.

The fourth statement addresses whether poor credit risk assessment affects the bank's ability to retain and attract customers. With a mean of 3.49 and a standard deviation of 1.22, there is moderate agreement, but a higher standard deviation suggests diverse opinions on how significantly credit risk assessment affects customer dynamics.

Respondents were asked if the bank's current credit risk management tools effectively reduce non-performing loans. The mean of 3.86 and a standard deviation of 1.33 indicate that while there is overall agreement, there is also significant variability in opinions, suggesting that some respondents may feel the tools are not entirely effective.

The statement had a mean of 3.91 and a standard deviation of 1.08 which showed a strong belief that sound credit risk management differentiated the bank in the competitive landscape.

The mean of 3.8 and a standard deviation of 1.06 for this statement implied that respondents generally agree that the bank's credit risk management was positively influencing its financial performance, with some variation in opinions.

The mean of 4.00 and a standard deviation of 1.07 for this statement indicated a strong agreement that credit risk challenges affect the financial performance of the bank, reinforcing the importance of curbing these challenges for strategic financial planning.

Finally, the last statement about the link between the bank's financial stability and its credit risk management practices had the highest mean of 4.17 and a standard deviation of 1.00 which

reflected a strong perception that effective credit risk management is critical for maintaining financial stability.

Table 10: Challenges and Recommendations

STATEMENT	SA	A	N	D	SD	AV	SDn
There are challenges encountered in the credit risk assessment process at the bank	**13**	**13**	**4**	**2**	**3**	**7.0**	**5.52**
There are gaps in the current credit risk management practices at your bank	**10**	**10**	**2**	**5**	**8**	**7.0**	**3.46**
The bank is able to adapt to changes in credit risk conditions	**12**	**11**	**9**	**3**	**0**	**5.4**	**5.68**
There are other challenges in implementation of the bank's credit risk assessment processes	**14**	**16**	**4**	**0**	**1**	**6.2**	**8.07**
Improvements should be done in the bank's credit risk management practices	**11**	**13**	**7**	**2**	**2**	**7.0**	**6.04**
There is adequate training provided by the bank on credit risk management	**13**	**15**	**4**	**3**	**0**	**7.0**	**6.60**
Technology plays a great role in improving the bank's credit risk management	**15**	**15**	**3**	**2**	**0**	**7.0**	**6.48**
The bank is always prepared for handling potential credit risk crises	**15**	**12**	**5**	**2**	**0**	**6.8**	**5.81**
The bank conducts further discussions on improvement of credit risk management	**12**	**14**	**4**	**3**	**1**	**6.4**	**6.42**

Majority of respondents (26 out of 35) either "strongly agreed" or "agreed" that there were challenges encountered in the credit risk assessment process at the bank. The higher level of agreement indicated a significant perception of difficulties in appropriate assessment of credit risk.

A majority (23 respondents) believe the bank can adapt to changes in credit risk conditions. This finding points to a general confidence in the bank's flexibility and ability to respond to evolving risks, although there is some disagreement (4 respondents disagreeing).

Most respondents agree (30 out of 35) that there are challenges in implementing the bank's credit risk assessment processes. This high consensus suggests systemic issues in execution that may need management attention.

The results indicate a strong agreement on the need for improvements, as most respondents (26) agree or strongly agree. This finding implies a recognized gap between current practices and desired outcomes, necessitating strategic enhancements.

There is a consensus on the adequacy of training provided on credit risk management, with a majority (28 respondents) agreeing or strongly agreeing. This suggests that the bank's training programs are generally effective, although a small number of respondents (3) disagree.

Most respondents (28) agree or strongly agree that the bank is prepared for handling potential credit risk crises. This shows confidence in the bank's contingency planning and risk preparedness, though a small group remains skeptical.

A majority of respondents (26) agree or strongly agree that the bank conducts further discussions on improving credit risk management. This reflects a proactive approach to continuous improvement, although some variation in opinion suggests that this may not be consistently experienced across all areas.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS.

5.0 Introduction.

This study was designed to establish the credit risk assessment and financial performance of commercial banks. It also examined the credit risk assessment policies used by Stanbic bank in Uganda. It examined the effect of credit risk assessment on the financial performance of Stanbic bank. It investigated the challenges faced by commercial banks in credit risk assessment and suggested possible solutions.

5.1 Summary of the study.

5.1.1Credit risk assessment practices at Stanbic Bank

According to the study's summarized findings, which looked at the financial performance of Uganda's commercial banks and their practices for assessing credit risk, the majority of commercial banks used these methods to keep an eye on credit risks. Employee involvement suggests that Stanbic Bank values employee input, which could result in more thorough risk assessments. The study also looked at how well the bank communicates credit risk policies and procedures to its staff, and the responses showed that this is the case The majority of respondents agreed that the credit department frequently conducts credit risk assessments, indicating a proactive approach to risk management. Transparency in the credit risk process was also generally agreed upon by respondents, suggesting that the bank maintains transparent and open credit risk assessment procedures. All of these factors are critical for consistency and adherence to best practices.

5.1.2 Impact of credit risk on financial performance of Stanbic Bank.

It was observed that the credit risk assessment practices greatly affect the financial performance of commercial banks in Uganda either positively and negatively accordingly as explained below;

How well credit risk management works where respondents overwhelmingly agreed that good credit risk management has a positive impact on the bank's financial performance, in line with previous research that emphasizes the role of risk management in maintaining financial stability, financial losses resulting from credit risk issues, and findings from the study that credit risk issues contribute to financial losses at the bank, thereby highlighting the need for robust risk assessment practices in order to minimize the financial losses, and lastly is profitability and customer retention and it was evidenced that effective credit risk management is a potential driver to customer retention and profitability suggesting that improved risk management processes could improve the competitive position of the bank.

5.1.3 Challenges in Credit Risk Management

Furthermore, the researcher identified key challenges that included difficulties in adapting to changing risk conditions and gaps in current credit risk management practices. These challenges potentially undermine the bank's financial performance if not revised effectively.

The other challenge was adaption to changing risk conditions and ensuring that the tools and training provided are up to the required standards.

5.2 Conclusions.

The study examined the impact of credit risk assessment on the financial performance of commercial banks, with a specific focus on Stanbic Bank Wandegeya Branch in Uganda. Key findings indicated that effective credit risk management is crucial for enhancing the financial stability and performance of banks. The research established that proper credit risk assessment, including risk identification, measurement, monitoring, and mitigation, significantly influences financial outcomes, such as Return on Assets (ROA) and Return on Equity (ROE).

5.3 Recommendations

Enhance Employee Training: The bank should invest in ongoing training programs to ensure that employees are well-equipped to manage and assess credit risks effectively.

Adopt Advanced Technology: To address the identified challenges, Centenary Bank should consider integrating more advanced technological solutions for credit risk management, such as predictive analytics and automated risk assessment tools.

5.4 Areas for Further Research

Future research could explore how evolving regulatory frameworks, such as the adoption of Basel III standards, impact credit risk management practices and financial performance in commercial banks in Uganda.

A comparative study across different commercial banks in Uganda could provide a broader understanding of how various institutions manage credit risk and the resulting effects on their financial performance.

Research on the impact of emerging technologies, such as artificial intelligence and machine learning, in enhancing credit risk assessment processes could provide valuable insights for banks seeking to improve their risk management frameworks.

Further investigation into the relationship between customer behavior, credit risk, and financial performance could help banks develop more tailored credit risk assessment models that better predict defaults and enhance profitability.

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APPENDICES

APPENDIX 1

RESEARCH QUESTIONNAIRE TO STANBIC BANK STAFF.

Introduction.

This is the questionnaire for the impact of credit risk assessment on financial performance.

Dear respondent,

This is an academic study investigating into credit risk assessment and financial performance of commercial banks in Uganda. This study is meant to satisfy partial requirements for the award of Bachelors of Science in accounting and finance. Your responses shall be kept confidential and will only be used for study purposes. You are kindly requested to spare some time and respond to the questionnaire.

AIJUKA RINAH

S21B33/082

SCHOOL OF BUSINESS AND ADMINISTRATION

SECTION A: RESPONDENT BACKGROUND.

1). Gender. Male ☐ Female ☐

2).Age (years).20- ☐ 29 ☐ 30-39 ☐ 40-49 50and ☐ above

3).Education level

Diploma Bachelors Post graduate Masters Doctorate others

4).Position held

Top management ☐ middle management ☐ supervisory management ☐

5).Period of service offered at the bank

Less than 0-2 years 2-4 years 4-6 years above 6 years

6).Professional specifications

CPA ACCA CFA FRM

SECTION B: CREDIT RISK ASSESSMENT PRACTICES.

Please tick as appropriate.

This section focuses on the employee's experience and perspective on the bank's credit risk assessment practices. (Please tick the most suitable alternative)

Key: SD= strongly disagree, D= disagree, N= neutral, A= agree, SA= strongly agree

	STATEMENT	SA	A	N	D	SD
1	The institution involves employees in the credit risk assessment process					
2	The credit department often conducts credit risk assessments					
3	The bank communicates policies and procedures regarding credit risk assessment to employees					
4	The credit risk process is transparent in your bank					
5	Existence of inflation accelerates the number of creditors					
6	The credit risk supervisor sends notifications to creditors in case of delay in payments					
7	The credit risk assessment tools used by your bank are adequate					
8	The bank provides training on credit risk assessment and processes					

9	Field officers visit the creditors premises to assess their level of earning					

Section C: Impact of Credit Risk on Financial Performance

Instruction: Tick the suitable alternative.

This section explores the relationship between credit risk management and the bank's financial performance from the employees' perspective.

Key: SD= strongly disagree, D= disagree, N= neutral, A= agree, SA= strongly agree

	STATEMENT	SA	A	N	D	SD
1	In your view, effective credit risk management impact the bank's financial performance					
2	Do credit risk issues contribute to financial losses at the bank?					
3	Do you think improved credit risk management can improve profitability of the bank?					
4	Does poor credit risk assessment affect the bank's ability to retain and attract customers?					
5	Is the bank's current credit risk management tools effective on reducing non-performing loans?					
6	The bank's credit risk management practices are a competitive advantage in the industry					
7	The bank's credit risk management is positively influencing its financial performance					
8	Do credit risk challenges affect the financial goals of the bank					

9	Do you agree that the financial stability of the bank is linked to its practices on credit risk management					

Section D: Challenges and Recommendations

Instruction: Tick the suitable alternative

In this section, the researcher aims at identifying challenges faced in credit risk management and gathers employee recommendations to achieve an improvement.

Key: SD= strongly disagree, D= disagree, N= neutral, A= agree, SA= strongly agree

	STATEMENT	SA	A	N	D	SD
1	What challenges do you encounter in the credit risk assessment process at your bank?					
2	There are gaps in the current credit risk management practices at your bank					
3	How would you rate the bank's ability to adapt to changes in credit risk conditions					
4	What challenges do you face in implementing the bank's credit risk assessment processes					
5	What improvements would you recommend for the bank's credit risk management practices					
6	How would you rate the training provided by the bank on credit risk management					
7	How would you rate the training provided by the bank on credit risk management					

8	What role do you think technology should play in improving the bank’s credit risk management					
9	How would you rate the bank's preparedness for handling potential credit risk crises					
10	Would you be willing to participate in a focus group to further discuss credit risk management improvements					

APPENDIX II: DATA COLLECTION LETTER

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

SCHOOL OF BUSINESS

26th July, 2024

TO WHOM IT MAY CONCERN

Name: **AIJUKA RINAH** Reg. No **S21B33/082**

A Bachelor's student who is seeking permission from your office to collect data for **her** dissertation titled

"Credit Risk Assessment and Financial Performance of Commercial Banks in Uganda, a case study of Stanbic Bank Wandegeya Branch"

We shall be grateful if you could render assistance to **her** in collecting the necessary data for **her** dissertation

The Uganda Christian University School of Business thanks you in advance

.....

Mukisa Simon Peter
Research coordinator

UGANDA CHRISTIAN UNIVERSITY
P. O. BOX 4, MUKONO
26 JUL 2024
FACULTY OF
BUSINESS AND ADMINISTRATION