

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

**REGINA BANTU**

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

## DECLARATION

I Bantu Regina hereby declare that this research report has been produced out of my own effort with the guidance of my supervisor and has never been submitted to any other institution for any award.

Signature..........

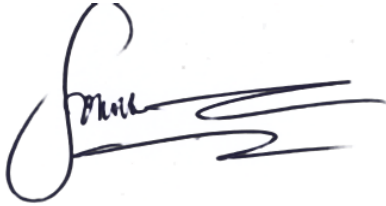
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BANTU REGINA

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## APPROVAL

After my supervision and approval, this study report is prepared for submission to Uganda Christian University's School of Business.

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

Signature: *Kasozi Geoffrey*

Date: **6<sup>th</sup> September, 2025**

MR.KASOZI GEOFFREY

(Supervisor)

## **DEDICATION**

I would especially like to dedicate my effort to my parents, who have always been there to help me with my studies. May you be abundantly blessed by the Almighty God.

## **ACKNOWLEDGEMENT**

I want to express my gratitude to the Almighty God for giving me life and for guiding me along my academic journey; it has not always been simple, but it has been possible. My supervisor, Mr. Kasozi Geoffrey, has my sincere gratitude for all of his hard work and knowledge that he provided to me when I was under his supervision.

I also thank the management and staff of the ABSA Bank office in Mukono for giving me the information I needed to do my research.

Last but not least, I would want to express my gratitude to my beloved family for their affection, spiritual support, and financial assistance throughout my academic career.

May God bless everyone.

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## ABSTRACT

The study focused on how credit risk management affected the lending performance of Ugandan commercial banks and in particular, ABSA Bank in Mukono, Uganda. To be more precise, it looked at how credit risk identification and loan performance are related, how credit risk assessment and loan performance are related, and how credit monitoring and loan performance relate to ABSA Bank in Uganda.

In addition to using both quantitative and qualitative research methods, the study was conducted using a cross sectional study design. Both basic random and selective sampling techniques were applied during the data gathering process, which involved the use of questionnaires and interviews. The study also employed a sample size of 44 respondents who work for ABSA Bank in Mukono and the bank's upper management.

The study findings revealed that credit risk management practices; credit risk identification, credit risk assessment, and credit monitoring at ABSA Bank, Mukono branch, significantly and positively influence loan performance, with Pearson's correlations showing strong relationships: credit risk identification ( $r = 0.672, p < 0.05$ ), credit risk assessment ( $r = 0.596, p < 0.05$ ), and credit monitoring ( $r = 0.654, p < 0.05$ ), indicating that effective practices enhance repayment rates, reduce defaults, and strengthen the loan portfolio.

Finally, the study recommended that ABSA Bank, Mukono branch, strengthen credit risk identification with advanced tools, maintain updated credit assessment guidelines, enhance continuous credit monitoring, provide regular staff training on modern risk management techniques and adopt risk-based client categorization to improve repayment rates, reduce defaults and sustain financial stability.

# CHAPTER ONE

## INTRODUCTION

### 1.0 Introduction

The study examined how credit risk management affected Ugandan commercial banks' loan performance using ABSA Bank as a case study in Mukono. Background information, problem statement, study purpose, study objectives, research questions, study scope, study significance, and conceptual framework are all presented in this chapter.

### 1.1 Background of the study

Credit risk management is a fundamental function of commercial banking operations as it determines the ability of the banks to sustain profitability and lower the possibilities of default on the part of the borrowers (Siddique et al., 2022). The competitive and evolving banking environment requires financial institutions to accurately measure and manage credit exposures in order to avoid asset quality impairments (Al Zaidanin & Al Zaidanin, 2021). To this end, poor credit risk management can lead to increased non-performing loans (NPLs), reduced capital adequacy, and ultimate financial instability (Fadun & Silwimba, 2023). Therefore, effective credit risk management practices such as screening of borrowers, loan monitoring, and collateral assessment are essential to sustaining loan performance and financial soundness (Addy et al., 2024).

Commercial banks are exposed to credit risks the most due to their financial intermediation role of transforming deposits into loans (Nguyen, 2023). With increased competition and diversification of loan products, managing credit risk has grown more complex and strategic in planning (Harb et al., 2023). Failure to successfully deal with credit risks has led to catastrophic financial crises in the past, highlighting the need for sound frameworks for measuring, mitigating, and monitoring loan exposures (Ramjali, 2024). The performance of loans significantly affects the profitability, liquidity, and stability of banks and hence the success of credit risk management practices directly affects operational sustainability (Aduda & Obondy, 2021).

Globally, most nations have established advanced mechanisms for improving credit risk management and the performance of loans (Addy et al., 2024). In the United States, the financial crisis of 2008 highlighted the need for effective risk assessment mechanisms, leading to enhanced lending regulations and stress-testing frameworks (Orichom & Omeke, 2021). In Europe, countries like Germany and the United Kingdom have adopted risk-based capital frameworks in accordance with Basel III to strengthen credit portfolio management (Barugahare, 2023). In Asia, countries like Vietnam and Nepal have come under increased pressure to develop credit evaluation tools and borrower profiling to combat mounting NPLs and enhance financial performance (Olobo et al., 2021). Despite different economic conditions, these countries value the fact that credit risk mitigation is key to safeguarding financial institutions and bolstering the confidence of clients (Agaba, 2022).

In Africa, credit risk management is yet to fully develop, particularly in the wake of rising default rates and economic volatility. In Ghana, studies have confirmed that poor credit analysis and inefficient supervision over loans are significant determinants of impaired loan performance among commercial banks (Kwashie et al., 2022). In Kenya and Nigeria, the integration of digitalized credit systems has opened up new risk models, but credit data quality and the creditworthiness of borrowers are still in question (Owomugisha, 2022). In the sub-Saharan African region, South Sudan and Tanzania have made progress in developing risk management frameworks, but political unrest and lax regulatory enforcement are still key risks to loan performance stability (Mwakujonga & Komba, 2024). Generally, the growing realization is that without sound credit risk management, access to credit will not translate into sustainable banking businesses or inclusive economic development (Temba et al., 2024).

In Uganda, credit risk management remains one of the determinants of commercial bank performance. There has been a combination trend in the banking sector's loan performance. This has been brought about by macroeconomic shocks, policy reforms, and institutional inefficiencies (Bakashaba et al., 2022). ABSA Bank Uganda, formerly Barclays Bank, operates in this highly regulated yet competitive setup where loan performance is critical for profitability and survival (Nandera, 2022). Numerous empirical research conducted in Uganda concluded that credit risk management practices such as the evaluation of the creditworthiness of customers, loan portfolio diversification, and effective loan recovery mechanisms in place play a basic

function in reducing NPL ratios (Sowed et al., 2024). Specifically in ABSA Bank Mukono branch, an understanding of the connection between credit risk controls and the performance of loans can give perspective to improved operating strategies and financial resilience building (Ayebazibwe, 2023).

## **1.2 Problem statement**

Ideally, commercial banks should achieve strong loan performance through effective credit risk management practices such as risk identification, assessment, and monitoring (Agaba, 2022). However, in Uganda, loan performance has deteriorated despite these efforts. According to the Bank of Uganda Annual Supervision Report (2023), the non-performing loan (NPL) ratio rose from 4.7% in 2021 to 6.0% in 2022. In addition, at ABSA Bank Uganda, the loan repayment rate declined from 89% in 2021 to 76% in 2022, while the NPL ratio rose from 5.2% to 7.8% (Ayebazibwe, 2023). The loan recovery rate also fell from 68% in 2020 to 53% in 2022, and portfolio at risk increased from 4.5% to 7.1% (Sowed et al., 2024). If unresolved, these trends may result in higher credit losses and reduced bank stability. Although stakeholders like Bank of Uganda and Uganda Bankers Association have introduced credit policies and monitoring tools, the problem remains (BoU, 2023).

Furthermore, previous studies by scholars like Al Zaidanin & Al Zaidanin (2021) have mainly focused on general financial performance, profitability, or macroeconomic effects of credit risk in different contexts. For example, Nguyen (2023) analyzed credit risk in Vietnam, while Ramjali (2024) examined the profitability implications in Nepal. In Uganda, Nandera (2022) explored credit risk management but did not isolate specific dimensions of loan performance such as repayment rate, recovery rate, and portfolio at risk. Furthermore, Owomugisha (2022) focused on Centenary Bank in Kabale, yet very few empirical studies have been conducted on ABSA Bank. This created a contextual and methodological gap which this study sought to fill by examining how credit risk management affects loan performance in ABSA Bank, Uganda.

## **1.3 Purpose of the study**

This study looked at how credit risk management affected the loan performance of Ugandan commercial banks, with a particular emphasis on ABSA Bank in Mukono.

#### **1.4 Objectives of the study**

- i. To examine the relationship between credit risk identification and loan performance in ABSA Bank, Uganda.
- ii. To establish the relationship between credit risk assessment and loan performance in ABSA Bank, Uganda.
- iii. To examine the relationship between credit monitoring and loan performance in ABSA Bank, Uganda.

#### **1.5 Research questions**

- i. What is the relationship between credit risk identification and loan performance in ABSA Bank, Uganda?
- ii. What is the relationship between credit risk assessment and loan performance in ABSA Bank, Uganda?
- iii. What is the relationship between credit monitoring and loan performance in ABSA Bank, Uganda?

#### **1.6 Scope of the study**

##### **1.6.1 Content Scope**

The study was specifically limited to; examining the relationship between credit risk identification and loan performance, establishing the relationship between credit risk assessment and loan performance, and exploring the relationship between credit monitoring and loan performance in ABSA Bank, Uganda.

##### **1.6.2 Time scope**

The review of reports and documents covered a period of five years, from 2020 to 2024. This timeframe allowed for a comprehensive analysis of recent trends and patterns in credit risk management and their influence on loan performance at ABSA Bank, Mukono branch.

### **1.6.3 Geographical scope**

This study was carried out in ABSA Bank, Mukono branch, located along Jinja Road, Plot 41, Mukono District, Uganda. ABSA Bank was selected because it has experienced noticeable challenges in loan performance, particularly in areas such as loan repayment rates, non-performing loan ratios, loan recovery rates, and portfolio at risk (Bank of Uganda Supervision Report, 2023/24).

### **1.7 Justification of the study**

The justification behind this study arose from the growing desire among commercial banks in Uganda to pursue poor loan performance despite having credit risk management practices. While previous strategies such as those by Nandera (2022) target overall profitability alongside credit risk management, there is no direct mention of the effect of credit risk identification, assessment, and monitoring on the key loan performance ratios including repayment rate, non-performing loan ratio, loan recovery rate, and portfolio at risk, particularly in the context of ABSA Bank Mukono branch. This study, thus, sought to fill such context and empirical gap by providing concrete findings that can inform more effective credit risk strategies and enhance the financial health of Uganda commercial banks.

### **1.8 Significance of the study**

The study will be significant to commercial banks as it will provide insights into how credit risk management practices directly influence loan performance, enabling them to adopt more effective strategies for minimizing loan defaults and improving loan recovery rates.

The study will be significant to the Bank of Uganda by offering evidence-based findings that can support regulatory oversight, strengthen credit risk frameworks, and inform policy adjustments aimed at improving asset quality in the banking sector.

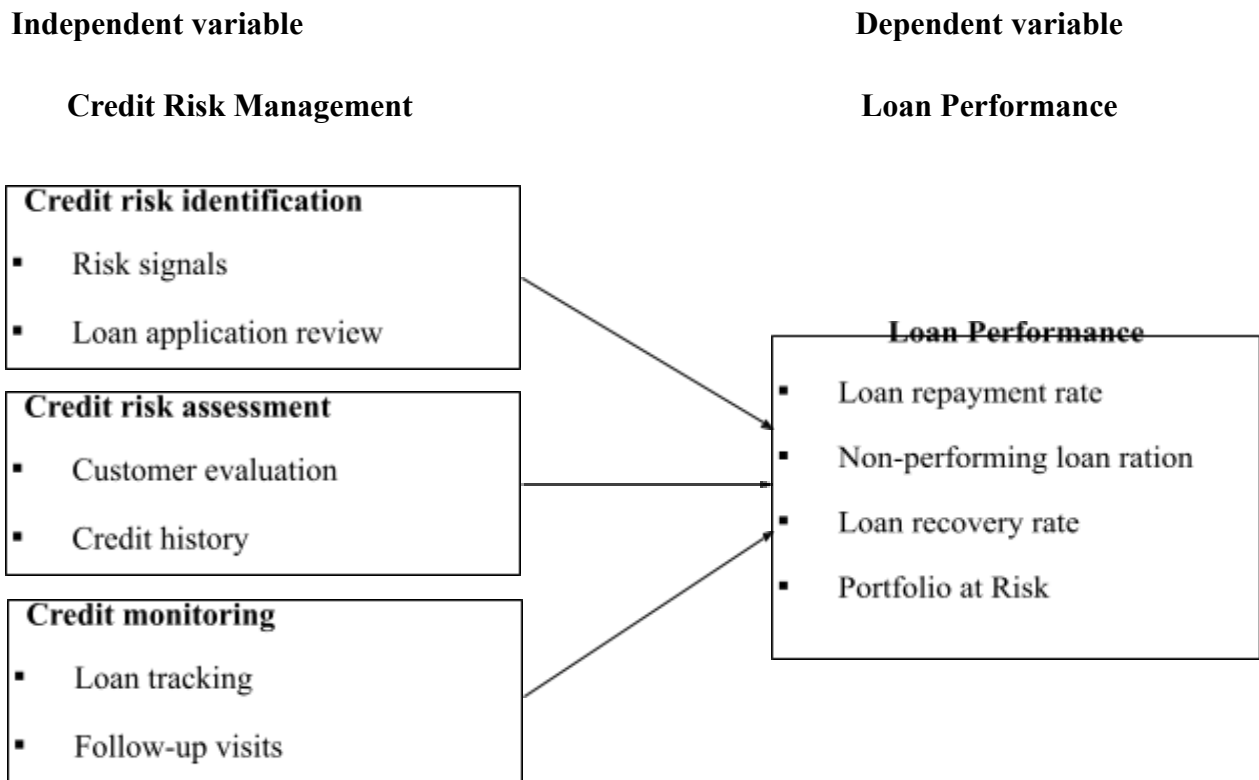
The study will be significant to bank managers and credit officers as it will guide them in identifying practical gaps in their risk identification, assessment, and monitoring processes, ultimately enhancing their decision-making in loan approvals and recoveries.

The study will be significant to policy makers by providing empirical data that can be used to design or refine credit risk policies and interventions aimed at promoting financial stability and reducing non-performing loans in Uganda’s banking industry.

The study will be important to scholars and future researchers since it adds to the body of information on loan performance and credit risk management. It will also serve as a foundation and point of reference for future research in similar fields both inside and outside of Uganda.

### 1.9 Conceptual framework

**Figure 1: Conceptual Framework**



**Source:** *Adopted from, Thanh & Quang (2022) and modified by the researcher (2024)*

This study's conceptual framework investigates the connection between commercial banks' loan performance and credit risk management. The independent variable, credit risk management, includes credit risk monitoring (by regularly visiting and monitoring loans), credit risk assessment (by analyzing the customer and credit history), and credit risk identification (by looking at loan applications and warning signs). The dependent variable loan performance, as

determined by the loan recovery rate, non-performing loan ratio, loan repayment rate, and portfolio at risk, must be directly impacted by these activities. Improved recovery, fewer defaults, and lower risk exposure are all ways that good credit risk management must improve loan performance.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter offers an examination of pertinent studies by a number of academics in addition to the opinions of other researchers regarding the impact of credit risk management on commercial banks' loan performance. The primary objective of this literature review is to determine what has been done and what has not been done in this field of study. As a result, study-related books, periodicals, encyclopedias, and newspaper articles were employed as sources.

#### 2.1 Conceptual review

##### 2.1.1 Credit risk management

Financial institutions employ credit risk management techniques and protocols to identify, assess, track, and manage the potential for a borrower to default on a loan. According to Siddique et al. (2022), proactive borrower risk detection and mitigation are crucial, and credit risk management is seen as a key factor in a bank's stability and profitability. Al Zaidanin and Al Zaidanin (2021), however, argue that credit risk management is not just about minimization of risk but also about optimizing credit portfolios for sustainable returns. While both perspectives agree on the management of default risk by borrowers, they seem to look at it differently one from the lens of risk minimization and the other from balanced risk-taking. Fadun and Silwimba (2023) also support this dual role in the sense that credit risk management should not only protect bank assets but also generate revenue growth strategically.

Scholars have also debated the factors and dimensions of credit risk management measurement. For example, Olobo et al. (2021) cite credit risk identification, credit analysis, and ongoing loan monitoring as crucial dimensions, noting that failure in any of these leads to mounting non-performing loans. Kwashie et al. (2022) agree with these dimensions but include the role of internal control systems and staff capacity as being part of effective credit management. Aduda and Obondy (2021), on the other hand, have a broader framework that includes regulatory compliance and client relationship management and argue that the regulatory environment to a great extent dictates credit risk outcomes. These varying frameworks capture the

multidimensionality of credit risk management, with scholars giving variable priority to different institutional and contextual factors.

Various studies in various nations have also operationalized credit risk management in various ways, indicating practice and literature gaps. For instance, Nguyen (2023) in Vietnam operationalized credit risk management using credit scoring, loan follow-up, and recovery procedures, while Ramjali (2024) in Nepal did so using customer screening and collateral evaluation. In Uganda, Agaba (2022) researched credit risk identification, assessment, and control, while Owomugisha (2022) worked on the role of ongoing loan monitoring and recovery planning. However, these studies ignore the interconnectedness of these factors and how they collectively influence loan performance. This study seeks to contribute to the literature by bringing together credit risk identification, credit assessment, and credit monitoring in order to have a comprehensive perspective of managing credit risk in the case of ABSA Bank, Mukono.

### **2.1.2 Loan performance**

Credit risk management (CRM) is globally accepted as an important banking and other financial institutions' activity whose aim is to decrease the default risk by borrowers and keep the stability of the credit portfolio. Harb et al. (2023) define credit risk management as a systematic method of recognizing, quantifying, and controlling the risks arising from credit operations, especially in risky economic environments. In contrast, Addy et al. (2024) lay strong stress on predictive analytics in CRM, arguing that modern data-based models enhance decision-making and reduce subjectivity in credit evaluation. The varying definitions reflect a schism between traditional process-based understandings and emerging technology-based notions of credit risk management.

Different researchers have proposed different axes along which credit risk management can be measured. Temba et al. (2024) suggest three major dimensions: credit risk identification, credit assessment, and credit monitoring and claim that all three play significant roles in lowering default rates and enhancing bank profitability. Similarly, Barugahare (2023) identifies risk evaluation, customer screening, and follow-up mechanisms as the most important components of a sound credit risk system. On the other hand, Mwakujonga and Komba (2024) identify loan collection methods and recovery procedures as additional dimensions, articulating that CRM

needs to go beyond extending credit to include follow-up after release. These measurement dimension differences articulate that although there is consensus about the importance of CRM, its operationalization differs contextually.

Besides, the impact of non-credit risk management on institution performance has been examined in various regional contexts with differences in effective implementation and outcomes. For instance, Nandera (2022) found that non-standard credit appraisal procedures and weak internal controls in Ugandan banks were causal reasons for poor loan performance. Similarly, Ayebazibwe (2023) found that inefficiencies in monitoring and follow-up processes significantly boosted the proportion of non-performing loans in Standard Chartered Bank in Kampala. Sowed et al. (2024) argue that even when CRM frameworks are present, implementation challenges such as poorly trained staff or lax enforcement undermine their effectiveness. Such evidence supports the fact that CRM is ubiquitous practice but success hinges heavily on institutional capacity, regulatory enforcement, and compliance with orderly risk control.

## **2.2 Empirical review of the study objectives**

### **2.2.1 Relationship between credit risk identification and loan performance**

Harb et al. (2023), in their study, analyzed banks' risk management practices in the MENA region and concluded that early detection of credit risk has a significant effect on loan portfolio quality. The study concluded that banks with formalized borrower analysis and early warning systems experienced fewer non-performing loans and higher recovery rates. Similarly, Addy et al. (2024) pointed to the use of predictive analytics in identifying early warning signs of credit risk and noted that banks that used such technologies experienced improved loan repayment and reduced portfolio-at-risk. While both studies validate the link between credit risk detection and loan performance, the two studies differ in orientation Harb et al. (2023) focus on qualitative systems while Addy et al. (2024) emphasize technology-based solutions. Both studies acknowledge that without a sound credit risk identification framework, banks struggle to manage rising loan defaults effectively.

Mwakujonga and Komba (2024) in Tanzania evaluated the influence of credit risk identification practices by microfinance institutions on loan performance. They established that inadequate

screening of borrowers and poor documentation processes tend to lead to high non-performing loans and low loan recovery. Similarly, in Uganda, Bakashaba et al. (2022) conducted a study in Kampala and established that ineffective risk signal monitoring, such as ignoring client cash flow variations or payment history, was in direct relationship with rising levels of loan default. While the two studies validate the importance of credit risk identification, they also reveal structural weaknesses such as inadequate staff capacity and lack of timely data as serious impediments. These findings point to the need for banks to invest in frontline credit evaluation tools and training for improved loan performance.

Nandera (2022) analyzed the impact of credit risk identification on the loan performance of commercial banks in Uganda, and it was clear that inefficient customer verification and poor risk profiling were major determinants of underperformance of loans. The study emphasized that the failure to identify red flags during the application process often resulted in loans being awarded to risky customers, thus the high write-off level. Similarly, Ayebazibwe (2023), in a case study of Standard Chartered Bank Kampala branch, observed that inability to detect discrepancies in client documents and utilization of assumptions rather than in-depth background verification led to low portfolio quality and low recovery levels. Although both studies are contextually situated in Uganda, their observations align with international observations that early identification of credit risk is significant in enhancing the performance of loans.

Sowedi et al. (2024) compared credit risk practices in selected commercial banks in Uganda and established that banks with formalized credit appraisal procedures, including verification of identities and screening of loans, had better repayment rates and fewer default instances. The study also quoted that risk identification at the loan origination stage was more effective when credit officers underwent training in financial analysis and borrower assessment. Likewise, Barugahare (2023) examined microfinance institutions and found that the detection of risk patterns such as client over-indebtedness at an early stage significantly reduced loan write-offs. The study differs in institutional coverage commercial vs. microfinance but both show that risk detection at the earliest phase of the credit process plays a key part in the performance of loans.

Orichom and Omeke (2021) investigated credit risk identification in Ugandan microfinance institutions and concluded that poor risk profiling and ineffective internal controls were to blame for high default rates on loans and poor portfolio performance. This was supported by Al

Zaidanin and Al Zaidanin (2021), who confirmed the same trends in UAE banks, where lenient credit assessment at the application stage had led to a rise in non-performing loans. Though the environments differ, the implication is identical: credit risk recognition must be accorded priority and allocated with adequate resources to minimize credit losses. Both reports recommend more robust client screening processes and information consolidation to enhance credit decisions and safeguard institutional loan performance.

### **2.2.2 Relationship between credit risk assessment and loan performance**

Ayebazibwe (2023) in his study on Standard Chartered Bank Kampala established that there was effective credit risk evaluation, specifically the credit history analysis of borrowers and their financial stability, which ensured higher repayment for the loans. The study established that where the evaluation processes were poor and applied randomly, there was an increase in cases of default cases as well as an increase in non-performing loans. Similarly, Nandera (2022) in her doctoral study of commercial banks in Uganda observed that banks that used systematic credit scoring techniques and rigorous client screening had greatly enhanced portfolio quality and decreased portfolio-at-risk. The two studies support the fact that credit risk assessment is a critical screen that tells us the likelihood of default, and erroneous assessment is often correlated with deteriorating loan performance. However, Ayebazibwe (2023) pointed out the need for constant training of credit officers, while Nandera (2022) emphasized the incorporation of digital credit scoring technology.

Barugahare (2023) for microfinance institutions in Uganda confirmed that effective credit risk assessment practices such as employment checks, income verification, and payment history of previous loans were positively related to improved recovery rates of loans. The study concluded that institutions with no formal assessment processes were at higher risk of credit losses. In a second study, Temba et al. (2024) analyzed Tanzanian commercial banks and reported that repeated failures of creditworthiness analysis, specifically for SME lending, led to overestimated credit exposure and ensuing defaults. While both studies call for the role of evaluation tools, Barugahare (2023) stresses client-specific information, and Temba et al. (2024) refer to institutional process deficits. Combined, they indicate enhancing loan evaluation policies to enhance financial sustainability.

Bakashaba et al. (2022) found that Kampala commercial banks that employed good credit assessment criteria such as risk classification matrices and rigorous financial due diligence experienced lower write-offs and improved loan performance. These institutions experienced a 20–30% rise in the recovery rate over a span of two years. Conversely, institutions that used manual or ad-hoc borrower evaluations had higher ratios of non-performing loans. In another study, Ramjali (2024) looked at Nepalese banks and concluded that variations in the application of credit appraisal guidelines resulted in overestimation of the risk of the clients and added to bad debts, as well as a reduced loan portfolio. The findings in both studies indicate that standardized and automated assessment tools can minimize subjective judgment and guarantee better loan decisions.

Aduda and Obondy (2021) had also examined savings and credit cooperative societies (SACCOs) and had concluded that complete credit risk analysis, especially those that involved borrower profiling and assessment of credit history, directly influenced the success rate of loan repayment. SACCOs that had up-to-date assessment criteria were found to default less, as per the study. Similarly, Nguyen (2023), in his research on Vietnamese commercial banks, found that banks with advanced credit risk analytics performed better in loan repayment rates and minimized credit losses. Such banks, which operated under different economic circumstances, were both researched eager to highlight the efficacy of data-based evaluations and borrower scoring in minimizing exposure to credit risk and optimizing loan performance.

Sowedu et al. (2024) quantified some Ugandan commercial banks and concluded that banks with good customer appraisal procedures covering collateral valuation, income stability, and creditworthiness had more successful loan recoveries and fewer cases of loan restructuring. They noted that every time the appraisal was shallow or omitted due to pressure to release loans, the banks then experienced high portfolio-at-risk. In the same vein, Addy et al. (2024) stressed the deployment of predictive analytics in credit assessment to show how the application of AI-driven models increased accuracy rates in the detection of potential risky borrowers. Both the studies attest that careful assessment not only safeguards banks from default but also enhances borrower-bank relationship building. The need for continued investment in credit analytics and client assessment systems remains a cornerstone of advice across these studies.

### **2.2.3 Relationship between credit monitoring and loan performance**

Orichom and Omeke (2021) in their study took into account how frequent monitoring of credit impacted the performance of microfinance institutions' loans in Uganda. They established that there were considerable lower default rates for institutions that had frequent loan follow-ups, borrower engagement, and frequent payments schedules review. This finding is in agreement with that of Bakashaba et al. (2022), who studied commercial banks in Kampala District and showed that rigorous post-disbursement monitoring through telephone calls and doorstep borrower visits facilitated the collection of more loan recoveries. While Orichom and Omeke highlighted structural monitoring systems, Bakashaba et al. noted interpersonal means, but both studies agree that credit monitoring is central to loan performance sustenance.

Harb et al. (2023) in the MENA region concluded that active credit monitoring reduced the percentage of loans that migrated to non-performing status. The study documented that banks using real-time monitoring tools and alert systems on the borrower accounts picked up early warning signals and took appropriate action. Similarly, Nguyen (2023), in a study of Vietnamese commercial banks, found that those banks with automated monitoring systems had a great advantage when it came to handling risky loan portfolios by intervening in time. Both papers emphasize the shift towards digital monitoring instruments as critical for reducing default risks even though differing contextual implementation challenges exist across regions.

Aduda and Obondy (2021) carried out a literature review of SACCOs and established that lack of adequate loan monitoring was one of the main causes of rising default rates. The study proved that SACCOs with no monitoring of borrowers' utilization of funds or no payment follow-ups reinstatement were more susceptible to loss. Supporting this view, Mwakujonga and Komba (2024) in their Tanzanian study observed that there was a greater percentage of loans in arrears in microfinance institutions with poor monitoring systems, primarily due to the fact that there was insufficient timely borrower interaction and portfolio evaluation. The lessons are that proper credit monitoring procedures are required, especially for those institutions serving low-income or the informal sector borrowers.

Addy et al. (2024) showcased the promise of predictive analytics to improve credit monitoring, illustrating how data-driven alerts can allow lenders to identify riskier borrowers ahead of

default. Their summary determined that banks using predictive models incorporating current transaction activity and payment patterns maintained better portfolios and fewer write-offs. On the other hand, Barugahare (2023) studied Ugandan microfinance institutions and found that none of them had the digital infrastructure for real-time monitoring, meaning there was reactive rather than proactive credit intervention. Both of these studies contrast better computerized analytical tools with manual monitoring, and in their evidence, reveal a technology gap that can influence monitoring efficiency and, therefore, loan performance.

Another study by Temba et al. (2024) in Tanzania found that banks with regular borrower review, audit visits, and compliance checks experienced greater levels of loan repayment and fewer cases of restructuring. They noted that continuous contact after lending generated responsibility among the borrowers. In turn, Ayebazibwe (2023) found that monitoring by repayments in the form of reminders, tailored calls, and visits enhanced clients' repayment behavior at Standard Chartered Bank Uganda. The two studies both establish a strong relationship between human-led and system-led monitoring practices and better loan performance, underlining the importance of regular borrower contact throughout the credit cycle.

### **2.3 Research/ Literature Gap**

The reviewed empirical studies point to the following knowledge gaps: while there is widespread consensus that credit risk identification, assessment, and monitoring have significant effects on loan outcomes, most studies test commercial banks or microfinance institutions in a standalone manner and not through comparative institutional conclusions. Additionally, while there are some studies emphasizing technology-driven strategies like predictive analytics, there are few studies looking into how these innovations are implemented in practice within low-resource or rural financial institutions. In addition, limited evidence exists on the sustainability of these credit risk practices over the long term or cost effectiveness, especially in developing countries like Uganda.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter outlines the research approach that was employed. It explained the methodology used for this investigation. It covers the study population, sample size calculation, data sources, study design, and study setting. Additionally, it explains the study's limits, ethical considerations, sampling techniques, study variables, data gathering methods and tools, data processing, quality control measures, data analysis, and validity and reliability of data collection tools.

#### **3.1 Research design**

The research design used in this study was a cross-sectional survey, which gathers information from participants all at once without further follow-up (Hunziker & Blankenagel, 2024). This methodology is suitable because it allows the researcher to effectively evaluate, while taking time and budgetary restrictions into account, the relationship between loan performance and credit risk management methods at the ABSA Bank, Mukono branch. It facilitates the capturing of current practices, perceptions, and trends regarding credit risk identification, assessment, and monitoring, and their effect on loan repayment rates and non-performing loan ratios during the data collection period (Maier et al., 2023).

To guarantee a thorough grasp of the research subject, the study also used a mixed-methods strategy, combining quantitative and qualitative research techniques (Hodge, 2020). The quantitative component involved the use of structured questionnaires administered to selected credit officers, risk analysts, and loan recovery staff at ABSA Bank. This generated numerical data to support statistical analysis of how specific credit risk practices such as customer evaluation, loan tracking, and follow-up visits affect key aspects of loan performance, including portfolio at risk and recovery rates (Fischer et al., 2023).

Conversely, the qualitative component complemented the quantitative data by providing deeper insights into institutional and operational factors. It involved semi-structured interviews with key informants such as the branch manager, credit manager, and risk assessment officers at ABSA Bank, Mukono (Phillips, 2023). These interviews explored how credit risk management systems

are designed, implemented, and perceived by practitioners. They also revealed the challenges faced in ensuring effective risk mitigation and how these issues influence loan default levels and overall financial performance of the bank (Wieland et al., 2024).

### 3.2 Study area and population

The study was carried out in ABSA Bank, Mukono branch, located along Jinja Road, Plot 41, Mukono District, Uganda. ABSA Bank was selected because it has experienced noticeable challenges in loan performance, particularly in areas such as loan repayment rates, non-performing loan ratios, loan recovery rates, and portfolio at risk (Bank of Uganda Supervision Report, 2023/24). The study population therefore included employees from the different departments in ABSA Bank, Mukono branch. According to the HRM Centenary Bank Uganda Ltd, as of 2025, the bank has 580 employees from its various branches across the country. Nonetheless, the study will comprise 50 individuals from various departments inside the ABSA Bank, Mukono branch, including management, sales, marketing, finance, human resources, and information technology. These employees will be the study's target demographic. The study population also had five key informants, all of whom are the management of the ABSA Bank branch in Mukono.

### 3.3 Sample size determination

Katamba and Nsubuga (2014) define sample size as the percentage or subset of the entire population. Using Taro Yamane's (1970) sample calculation formula, the sample size was ascertained as follows;

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

“n” is sample size, “N” is population, “e” is error (0.05) or level of confidence 95%

“N” (population) = 50 employees from the different departments in ABSA Bank, Mukono

$$n = \frac{50}{1+50(0.05)^2}$$

$$n = \frac{50}{1+50(0.0025)}$$

$$n = \frac{50}{1+(0.125)}$$

$$n = \frac{50}{1.125}$$

**n = 44** employees from the different departments in ABSA Bank, Mukono branch.

Accordingly, 44 respondents who work in various departments at the ABSA Bank branch in Mukono made up the sample size, as determined by the sample size calculation above.

### **3.3.1 Selection of Participants for qualitative data collection**

Five top management department officials from ABSA Bank's Mukono branch, including the branch manager, credit manager, and risk assessment officers, were specifically chosen because they are directly involved in creating, carrying out, and overseeing the bank's credit risk management procedures and policies. Their insights were instrumental in understanding how credit risk is managed, the challenges encountered, and how these practices influence the bank's loan performance.

### **3.4 Sampling techniques and procedure**

Simple random selection was used to choose 44 employees from the various departments of the ABSA Bank branch in Mukono. This method reduced selection bias by guaranteeing that every employee had an equal chance of being chosen. The Human Resource Department of ABSA Bank's Mukono branch gave the list of employees from which the sample was taken. The chosen employees were contacted to obtain their consent to take part in the survey.

Additionally, a total of 5 top officials from ABSA Bank, Mukono branch, including the branch manager, credit manager, and risk assessment officers, were selected purposively. These key informants were chosen because they are directly involved in the design, implementation, and oversight of credit risk management policies and practices within the bank. Their perspectives were crucial for understanding how credit risks are managed, the challenges faced, and how these practices influence loan performance.

### **3.5 Data collection methods**

#### **3.5.1 Questionnaires**

A questionnaire is a systematic set of questions used to collect data from respondents, claim Katamba and Nsubuga (2014). Data for this study was gathered from ABSA Bank employees at the Mukono branch using both closed-ended and open-ended questionnaires. While the closed-ended questions offered alternatives for standardized responses to guarantee consistency in data analysis, the open-ended questions gave respondents the opportunity to express their thorough perspectives on how credit risk management strategies affect loan performance. The researcher guided participants where necessary to ensure clarity and accuracy of responses, especially regarding the bank's internal credit processes and loan management practices (Ikart, 2019).

#### **3.5.2 Key Informant Interviews**

Key informant interviews were conducted with five top officials at ABSA Bank, Mukono branch, including the branch manager, credit manager, and risk officers. An unstructured interview guide was used to facilitate in-depth discussions on credit risk identification practices and how they impact loan performance at the bank. The guide covered key themes such as risk detection, credit assessment, policy implementation, and loan default management. This method was chosen because it allows for detailed insights that were not captured through questionnaires alone (Taherdoost, 2021).

### **3.6 Data collection tools**

The study employed two different kinds of data collection instruments. These contained interview and questionnaire guides, which are described in brief in the subsection that follows.

#### **3.6.1 Questionnaire guide**

The primary instrument for gathering quantitative data from chosen staff members in different departments at the ABSA Bank branch in Mukono was a structured questionnaire guide. Reaching a sizable number of responders in a condensed amount of time is possible with this technique. The majority of the questionnaire was made up of closed-ended questions that were

tailored to the goals of the study and addressed topics including loan approval procedures, credit risk identification procedures, and loan performance metrics. Respondents were asked to pick the choice that most accurately described their perception or experience.

### **3.6.2 Key informant interview (KII) guide**

To gather qualitative data, a key informant interview guide was used to explore deeper insights into credit risk identification practices at ABSA Bank. This tool is ideal for collecting information that may not be easily observed or quantified. It allows the researcher to steer discussions and explore emerging issues in detail. Interviews were conducted with five senior officials, including the branch manager, credit manager, and risk officers, who are directly involved in implementing and overseeing credit risk management strategies. The information gathered supplemented the data obtained through the questionnaire and provide a comprehensive understanding of how risk identification influences loan performance.

## **3.7 Validity and reliability of data collection instruments**

### **3.7.1 Validity**

To find out if the questions successfully captured the desired data, validity was evaluated (Sürücü & Maslakçı, 2020). The questions were assessed by research professionals to determine whether they were able to elicit the desired responses. To determine the validity of the research tool, a Content Validity Index (CVI) was calculated. The validity of the study instruments was assessed by the researcher using the following formula.

Content validity Index (CVI) = Relevant items by all judges as suitable

Total number of items judged.

The questionnaire was successful in gathering data, as evidenced by the CVI of 0.89, which was higher than the suggested cutoff of 0.70 (Duckett, 2021).

### **3.7.2 Reliability**

In research, reliability refers to the consistency, stability, and dependability of research findings, which indicate how effectively a study's findings can be repeated by other researchers or under

similar circumstances. Cronbach's coefficient alpha was used to assess the reliability of the questionnaire (Mellinger & Hanson, 2020). The Statistical Package for the Social Sciences (SPSS) was used to conduct a reliability analysis on a pilot survey with ten respondents. The Cronbach's coefficient alpha was computed using the formula below. The coefficient, which was 0.91, was higher than the suggested.70 (Duckett, 2021), suggesting that the questionnaire was suitable for gathering data.

### **3.8 Procedure of data collection**

The researcher obtained an introductory letter from Uganda Christian University upon successful defense of the research proposal. This letter was presented to the management of ABSA Bank, Mukono branch, to formally request permission to conduct the study. After receiving approval, the researcher scheduled appointments with selected key informants for face-to-face interviews and distribute structured questionnaires to selected employees across relevant departments. Data collection commenced only after obtaining informed consent from all participants, ensuring confidentiality, ethical compliance, and voluntary participation throughout the process.

### **3.9 Data analysis**

#### **3.9.1 Quantitative data analysis**

SPSS version 20 was used to examine quantitative data obtained from structured questionnaires. Descriptive statistics, including means, percentages, and frequencies, were produced at the univariate level to provide an overview of the traits of the respondents and their answers. To make these findings easier to understand, tables and bar charts were used (Jopling, 2019). The strength and direction of the link between credit risk detection techniques and loan performance were assessed at the bivariate level using Pearson's correlation coefficient. The 95% confidence interval ( $p\text{-value} < 0.05$ ) was established as the threshold for statistical significance (Skinner, 2020).

#### **3.9.2 Qualitative data analysis**

Qualitative data in this study was analyzed using thematic analysis, as outlined by Creswell (2007), to identify patterns and insights from interviews with top management and key informants at ABSA Bank, Mukono. The researcher transcribed audio-recorded interviews

verbatim and systematically code and categorize the data into themes related to credit risk identification practices and their influence on loan performance. These themes were aligned with the study objectives to gain a deeper understanding of institutional strategies, challenges, and best practices in managing credit risk. Verbatim quotes from participants were presented to support key findings and to illustrate refined perspectives on risk assessment and loan portfolio quality (Ruggiano & Perry, 2019).

### **3.10 Ethical consideration**

Ethics encompass the guidelines that differentiate between right and wrong conduct. They play a crucial role in delineating acceptable from unacceptable behaviors (Pietilä et al., 2020). Therefore, the following ethical considerations were upheld;

**Informed consent:** Participants were fully informed about the purpose of the study, the procedures, and their rights before taking part. Consent forms were provided to ensure voluntary participation, and participants were given the option to withdraw at any time without penalty.

**Confidentiality:** All data collected was treated with the highest level of confidentiality. Personal identifiers were removed, and responses were only used for the purposes of the study. Data was securely stored to prevent unauthorized access.

**Non-maleficence:** The study was conducted in a manner that avoids harm to participants. Emotional or psychological distress was minimized by ensuring that the study content was appropriate and that participants had access to support if needed.

**Voluntary participation:** Participation in the study was completely voluntary, with no coercion or undue influence. Participants were free to withdraw from the study at any point without any negative consequences.

**Anonymity:** The identity of participants remained anonymous, with no personal identifiers linked to any responses in the final report. This ensured privacy and protected the identity of individuals involved in the research.

### **3.11 Limitations and delimitation**

Initially, the research tools were not standardized. To create a reliable measurement of the research variables, a validity and reliability test was conducted.

Furthermore, the use of research assistants resulted in irregularities in the time spent administering the questionnaires, the respondents' comprehension of the items, and the explanations provided. The research assistants received orientation and training on the protocols to be followed during data collecting in order to reduce this risk.

Lastly, some questionnaires were not returned, not fully completed, or even recovered because of respondent conditions including illness, hospitalization, travel, or refusal/withdrawal to participate. To prepare for this, the researcher exceeded the minimal sample size in order to reserve more responders. Additionally, the participants were reminded to complete all questions on the surveys and were constantly monitored regarding the retrieval date.

## CHAPTER FOUR

### PRESENTATION AND INTERPRETATION OF RESULTS

#### 4.0 Introduction

In this chapter, the findings of the analysis conducted to examine the particular goals of the study and in connection with the examined literature are presented and interpreted. Employees and management from ABSA Bank's Mukono branch participated in interviews and completed questionnaires as part of the study. To aid with comprehension and interpretation, the results are displayed using tables and bar graphs.

#### 4.1 Response rate

All forty-four of the surveys that were provided were completed and returned. Therefore, as seen in table 1 below, the questionnaire response rate was 100%;

**Table 1: Response rate for questionnaires**

Response Rate	Sample Size	
	Frequency	Percentage (%)
Received	44	100.0%
Non Response	00	0.0%
Expected Response	44	100.0%

**Source:** *Primary data*

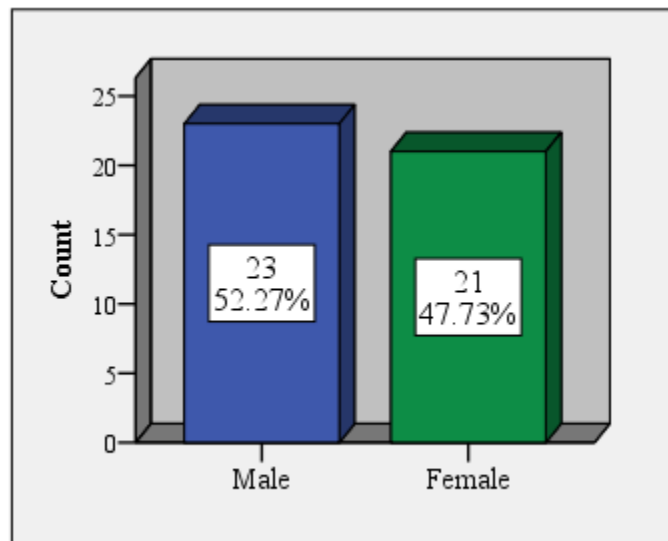
As indicated in table 1 above, a total of 44 (100%) respondents who work for ABSA Bank's Mukono branch in various departments were anticipated to complete the questionnaires; all of them did, resulting in a 100% response rate. Given that the researcher had the time to gather the necessary data and that the respondents were keen to participate in the study, the response rate was 100%.

## 4.2 Findings on demographic characteristics of respondents

### 4.2.1 Gender of the respondents

The gender distribution of the respondents who work for ABSA Bank-Mukono is shown in the image below, and the data is explained below.

**Figure 2: Gender**



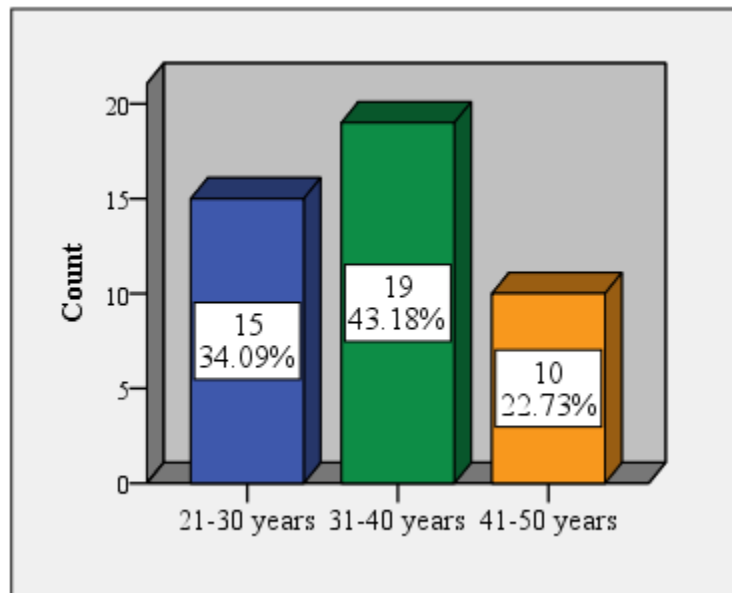
**Source:** *Primary data*

According to the results in figure 2 above, there were more men than women who responded to this survey since men filled out the majority of the questionnaires (52.3%), while women filled out the remaining 47.7%. Nonetheless, both men and women were included in the poll to obtain a balanced perspective of the responses from various commercial bank employees.

### 4.2.2 Age of the respondents

The age distribution of the respondents who work for ABSA Bank-Mukono is shown in the picture below, and the data is explained further.

**Figure 3: Age**



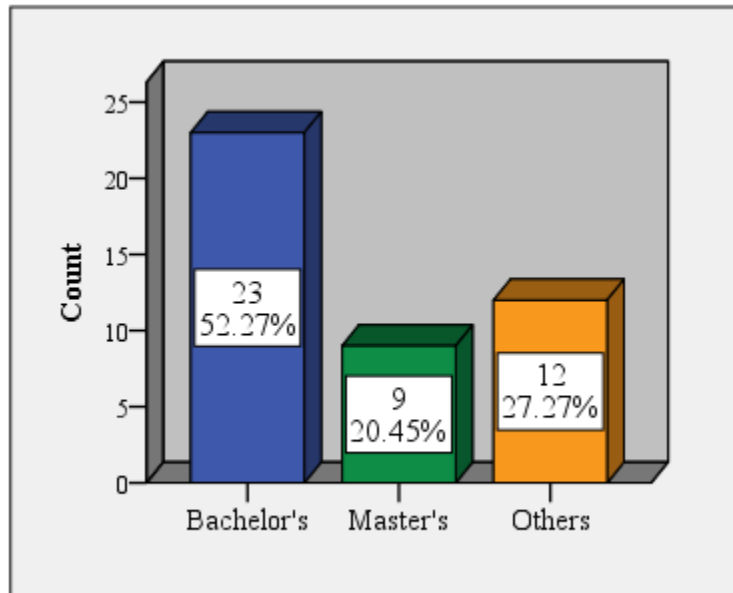
**Source:** *Primary data*

According to the results in figure 3 above, the great majority of respondents (43.2%) were in the age range of 31–40 years, followed by those in the 21–30 year age range (34.1%), and 22.7% were in the 41–50 year age range. Given that information was gathered from individuals in a variety of age groups, this suggests that there was no age discrimination. Additionally, it demonstrates a balance of new hires and experienced staff, both of which are beneficial to the commercial bank's long-term viability.

### 4.2.3 Education level of the respondents

The education level of the respondents who work for ABSA Bank-Mukono is summarized in the figure below, and the data is interpreted as follows.

**Figure 4: Level of education**



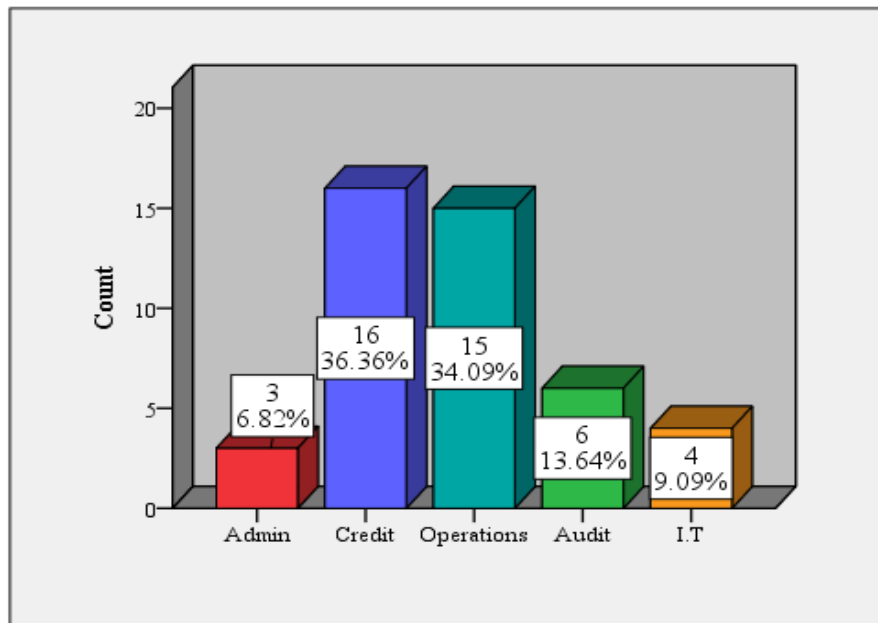
**Source:** *Primary data*

Employees of ABSA Bank-Mukono are highly educated, according to the findings in figure 4 above, as the majority of respondents (52.3%) have bachelor's degrees, followed by 27.3% who have earned additional credentials like ACCA, CPA, and postgraduate diplomas, and 20.4% who stated they have master's degrees. This suggests that because of the type of job that employees are expected to execute, ABSA Bank-Mukono hires highly skilled workers. In order to gather perspectives and opinions from individuals with varying educational backgrounds, the respondents' educational attainment was crucial to this study.

#### 4.2.4 Department respondents belong to

The data in the figure was interpreted below, and it outlines the departments to which the respondents who work for ABSA Bank-Mukono belong.

**Figure 5: Department**



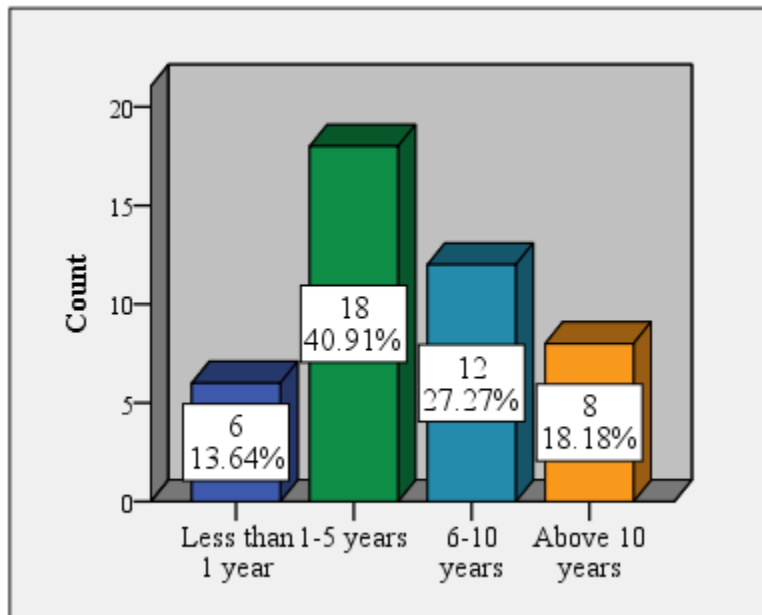
**Source:** *Primary data*

The results shown in figure 5 above showed that the majority of respondents, or 36.4% of the total population, were from the ABSA Bank credit department, followed by those from the operations department (34.1%), audit department (13.6%), and information technology department (9.1%). The minority, or 6.8% of the total population, was from the administration department of ABSA Bank. This suggests that information was obtained from several divisions inside the commercial bank (ABSA Bank-Mukono branch), which aided in the collection of data and diverse perspectives on the subject at hand.

#### 4.2.5 Period spent working with ABSA Bank- Mukono Branch

The data in the chart was interpreted below, and it provides a summary of the time respondents who work for ABSA Bank-Mukono have been employed there.

**Figure 6: Period spent working with ABSA Bank-Mukono Branch**



**Source:** *Primary data*

According to the results in figure 6 above, the majority of respondents, or 40.9%, had worked for ABSA Bank-Mukono for one to five years. Those who had worked there for six to ten years, or 27.3% of the total population, were followed by those who had worked there for more than ten years, or 18.2%. Those who had worked there for less than a year, or 13.6% of the total population, were the minority. Since the majority of respondents have worked with the ABSA Bank-Mukono branch for a reasonable amount of time, the results suggest that the respondents possess the requisite and effective knowledge on the subject matter.

### 4.3 Relationship between credit risk identification and loan performance in ABSA

Table 2 uses a Likert scale with SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree), and SD (Strongly Disagree) to summarize respondents' answers regarding the relationship between credit risk identification and loan performance at ABSA Bank, Uganda.

**Table 2: The relationship between credit risk identification and loan performance in ABSA Bank**

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	F	F	F	F	F
	(%)	(%)	(%)	(%)	(%)
ABSA Bank has effective procedures for identifying potential credit risks before loan approval.	19 43.2%	13 29.5%	8 18.2%	2 4.5%	2 4.5%
Early warning signals of borrower default are adequately captured during risk identification.	10 22.7%	20 45.5%	7 15.9%	4 9.1%	3 6.8%
The bank uses reliable tools and techniques to identify credit risks among clients.	10 22.7%	24 54.5%	8 18.2%	2 4.5%	00
Information gathered during risk identification is sufficient to predict borrower repayment ability.	13 29.5%	23 52.3%	3 6.8%	5 11.4%	00
Customer background checks are thoroughly conducted during the credit risk identification stage.	15 34.1%	12 27.3%	13 29.5%	1 2.3%	3 6.8%
Proper credit risk identification has reduced the chances of loan defaults in the bank.	18 40.9%	23 52.3%	3 6.8%	00	00

**Source:** *Primary data*

Table 2 represents the descriptive statistics on the relationship between credit risk identification and loan performance in ABSA Bank, Uganda. According to study, 93.2% of respondents agreed that proper credit risk identification has reduced the risk of loan defaults in the bank, whereas none disagreed and 6.8% did not know. This indicates that effective credit risk identification is widely accepted to be a significant factor in lowering loan defaults, and that the sustained emphasis on risk identification can enhance overall loan performance.

The findings also indicated that 81.8% of the respondents agreed that information obtained in the process of risk identification is sufficient to predict borrower repayment ability, 11.4% disagreed and 6.8% were uncertain. This reveals that the information obtained in the process of risk identification is usually adequate for making effective lending decisions, which implies improving the quality and breadth of information would further improve the repayment of loans.

Furthermore, 76.2% of the respondents agreed that the bank uses reliable techniques and instruments in identifying credit risks from customers, 4.5% disagreed, and 18.2% were not sure. This shows reliance on the bank's risk identification tools and methods, indicative of proper utilization and frequent use of these devices potentially enhancing prediction accuracy for probable defaults.

More so, the study showed that 66.8% of the participants agreed that customer background checks are performed well during the credit risk identification stage, while 9.1% disagreed and 29.5% were unsure. This indicates background verification is considered moderately effective but points out that others remain unconvinced and necessitates the value of more standardized or clearer background checking methods to further risk identification.

In addition, 67.2% of the participants concurred that early indicators of default by borrowers are sufficiently captured in risk identification, while 15.9% and 15.9% disagreed and were uncertain, respectively. This shows that there are measures the bank takes in the identification of potential defaults early, although there is need for improvement, which suggests that the improvement of early warning systems can further reduce the occurrence of loan non-performance.

Lastly, 72.7% of the respondents agreed that ABSA Bank has effective processes for identifying potential credit risks before granting a loan, with 9% not agreeing and 18.2% uncertain. This shows that the majority of the respondents recognize the presence of formalized risk identification processes, meaning it is important to sustain and enhance these processes for stable loan performance.

Overall, the findings indicate that credit risk identification at ABSA Bank, Mukono, is, overall, effective and positively related to loan performance. Most respondents agreed with all the statements, which show that proper risk identification, use of correct tools, checks on background, and warning systems all contribute to mitigating loan defaults and improving

repayment levels. This suggests that further efforts should be made to improve risk identification practices in order to keep the loan book of the bank in good health. The findings of the study concerning the relationship between credit risk identification and loan performance in ABSA Bank, Uganda were further determined using Pearson’s correlation that was conducted as shown below;

**Table 3: Pearson’s correlation on credit risk identification and loan performance**

**Correlations**

		Credit risk identification	Loan performance
Credit risk identification	Pearson Correlation	1	.672**
	Sig. (2-tailed)		.000
	N	44	44
Loan performance	Pearson Correlation	.672**	1
	Sig. (2-tailed)	.000	
	N	44	44

\*\* . Correlation is significant at the 0.05 level (2-tailed).

**Source:** *Primary data*

The findings indicated in table above shows that there is a significant positive relationship between credit risk identification and loan performance in ABSA Bank, Uganda. This relationship is affirmed by ( $r = .672^{**}$ ,  $p < .05$ ). This implies that effective credit risk identification significantly enhances loan performance at ABSA Bank, indicating that thorough identification of potential credit risks contributes to improved repayment and reduced defaults.

**4.3.1 Influence of credit risk identification on loan performance in ABSA**

From the interviews conducted with the key informants who are; top officials from the management department in ABSA Bank, Mukono branch who include the branch manager, credit manager, and risk assessment officers, they were asked for their views on how effective credit risk identification is in influencing loan performance and their responses were as follows;

The informants observed that credit risk identification in ABSA Bank, Mukono branch is highly effective in influencing the performance of loans. They pointed out that the bank employs a systematic procedure of identifying the potential risks before approving a loan, such as screening

the financial history of the clients, assessing their repayment capacity, and considering industry-related issues that may affect their repayment capacity. Through the identification of risks ahead of time, the bank is able to appropriately structure loans, set realistic repayment terms, and put in place specific mitigation factors, all of which result in better loan performance and lower default rates. The respondents referenced that early risk identification allows the bank to make informed lending decisions that balance profitability and risk management.

The respondents also noted that credit risk detection is not only about singling out high-risk customers but also about determining the overall parameters that are likely to affect repayment, such as economic conditions, market behavior, and borrower behavior. They elucidated that the bank relies on a combination of quantitative techniques, such as credit scoring models and financial ratios, and qualitative assessments, such as background checks and client interviews, to give an exhaustive examination of potential risks. From the perception of the respondents, this long process significantly reduces the risk of non-performing loans, renders the bank's portfolio robust, and leads to general financial stability because problem loans are identified and resolved before disbursement.

The key informants also added that credit risk identification is successful in general but that its success is dependent on how reliable the information collected is and how capable the staff that conducts the assessment is. They noted that ongoing training and capacity building of credit officers is crucial in maintaining high risk identification standards. The respondents further noted that ongoing refinement of risk identification approaches, including the adoption of advanced analytics and monitoring market trends, continue to enhance loan performance. Overall, they agreed that effective credit risk identification processes are a pillar for achieving consistent loan repayment and minimizing financial losses for the bank. Some of these key informants reported that;

*“.....Identifying potential credit risks before loan approval allows us to structure loans more effectively and significantly reduces the chances of defaults.....”* **Key Informant 1**

*“.....The effectiveness of our credit risk identification depends not just on the tools we use, but on the thoroughness and expertise of our staff in assessing each client.....”* **Key Informant 2**

#### 4.4 Relationship between credit risk assessment and loan performance in ABSA

Table 4 uses a Likert scale with SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree), and SD (Strongly Disagree) to describe respondents' answers about the relationship between credit risk assessment and loan performance at ABSA Bank, Uganda.

**Table 4: The relationship between credit risk assessment and loan performance in ABSA Bank**

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	F	F	F	F	F
	(%)	(%)	(%)	(%)	(%)
The bank conducts comprehensive assessments of borrowers before granting loans.	15 34.1%	25 56.8%	1 2.3%	3 6.8%	00
Borrowers' creditworthiness is adequately evaluated through financial analysis.	19 43.2%	14 31.8%	10 22.7%	1 2.3%	00
ABSA Bank ensures collateral security is sufficient and properly valued during assessment.	18 40.9%	21 47.7%	2 4.5%	3 6.8%	00
The credit risk assessment process helps to minimize non-performing loans.	21 47.7%	18 40.9%	3 6.8%	2 4.5%	00
The bank applies clear guidelines when assessing the repayment capacity of borrowers.	13 29.5%	16 36.4%	10 22.7%	3 6.8%	2 4.5%
The accuracy of credit risk assessment has a direct impact on loan performance.	14 31.8%	22 50.0%	2 4.5%	6 13.6%	00

**Source:** *Primary data*

Table 4 represents the descriptive statistics on the relationship between credit risk assessment and loan performance in ABSA Bank, Uganda. According to study, 88.6% of respondents agreed that the process of credit risk assessment helps in minimizing non-performing loans, 4.5% did not agree, and 6.8% were not certain. This implies that a good assessment process is widely regarded as a key determinant of loan defaults, and repeated application of assessment procedures has the ability to improve the quality of the loan portfolio.

The findings also revealed that 88.6% of the respondents agreed that ABSA Bank makes collateral security sufficient and correctly valued when appraised, 6.8% disagreed, and 4.5% were neutral. This reflects that good collateral appraisal is considered vital in safeguarding the bank against potential loan loss, and therefore rigorous collateral verification processes can assist in improving loan recovery and performance.

Furthermore, the findings established that 81.8% of the respondents agreed that loan performance is directly related to the precision of credit risk assessment, whereas 13.6% disagreed and 4.5% didn't know. This highlights how crucial it is to ensure proper evaluation procedures when determining borrower reliability, implying that increasing the assessment precision can lead to better loan performance.

More so, the findings showed that 90.9% of the respondents agreed that the bank thoroughly screens borrowers before lending money, 6.8% disagreed, and 2.3% were unsure. This confirms that extensive screening of borrower profiles is very effective and indicates that painstaking attention to evaluation will prevent non-performing loans.

In addition, the findings illustrated that 75.0% of the respondents agreed that creditworthiness of borrowers is well examined by means of financial analysis, whereas 2.3% disagreed and 22.7% were not sure. This indicates that financial analysis is most frequently considered to be an effective tool to gauge creditworthiness, though the relatively higher rate of uncertainty reflects the need for less ambiguous or standardized measuring processes.

Lastly, the findings revealed that 65.9% of the respondents agreed that the bank employs specific guidelines in assessing the repayment ability of borrowers, 11.3% did not agree, and 22.7% did not have an opinion. It shows that repayment ability guidelines are somewhat effective and that greater clarity and standardization in applying these guidelines would further strengthen loan performance.

Overall, the findings indicate that credit risk assessment in ABSA Bank, Mukono, is highly effective and positively correlated to loan performance. The majority of the respondents agreed on all statements, indicating that detailed borrower analyses, proper financial analysis, collateral checking, and clear guiding principles for assessment cumulatively contribute to reducing non-performing loans and maximizing repayments. This confirms the necessity for continuous

improvement in assessment procedures to sustain and improve loan performance. Pearson's correlation analysis was used to further ascertain the study's conclusions regarding the relationship between credit risk assessment and loan performance at ABSA Bank in Uganda, as indicated below;

**Table 5: Pearson’s correlation on credit risk assessment and loan performance**

		Credit risk assessment	Loan performance
Credit risk assessment	Pearson Correlation	1	.596**
	Sig. (2-tailed)		.000
	N	44	44
Loan performance	Pearson Correlation	.596**	1
	Sig. (2-tailed)	.000	
	N	44	44

\*\* . Correlation is significant at the 0.05 level (2-tailed).

**Source:** *Primary data*

The findings indicated in table above shows that there is a significant positive relationship between credit risk assessment and loan performance in ABSA Bank, Uganda. This relationship is affirmed by ( $r = .596^{**}$ ,  $p < .05$ ). This implies that effective credit risk identification significantly enhances loan performance at ABSA Bank, indicating that thorough identification of potential credit risks contributes to improved repayment and reduced defaults.

#### **4.4.1 Contribution of credit risk assessment to loan performance in ABSA**

From the interviews conducted with the key informants who are; top officials from the management department in ABSA Bank, Mukono branch who include the branch manager, credit manager, and risk assessment officers, they were asked for their views on the ways in which credit risk assessment contributes to reducing loan defaults and their responses were as follows;

The key informants explicated that credit risk assessment is the core in preventing loan defaults at ABSA Bank, Mukono branch by providing systematic analysis of customers' capacity to repay before loan disbursements. They claimed that the process of assessment involves looking at

customers' financial statements, sources of income, debt obligations, and cash flow patterns. By scrutiny of the determinants, the bank can identify risk borrowers and change the terms of the loan or decline the loan, cutting down directly on the number of non-performing loans. The interviewees identified that such a well-structured process ensures that credit decisions are made on objective fact-based knowledge rather than on intuition and therefore improve overall loan performance.

Moreover, the key informants expressed that credit risk assessment helps the bank determine the adequacy of collateral and guarantees, which is a security against defaults. They explained that analyzing the value and usability of collateral is required to guarantee that when payment defaults happen, the bank can recover its funds properly, reducing the financial impact of defaults. Also, they mentioned that risk assessment allows the bank to categorize customers based on levels of risk, thus allowing them to provide tailored monitoring and follow-up action for risky clients. This proactive management ensures timely detection of potential repayment issues and quick remedy, thus reducing the occurrence of loan delinquency.

The respondents also dwelled on the importance of regular review and updates of the credit evaluation criteria in order to stay abreast of changing economic realities and client conduct. They indicated that continuous improvement in evaluation techniques, such as the use of credit scoring models, market forces, and past payment habits, enhances the ability of the bank to predict risks and mitigate them. According to the key informants, a well-conducted credit risk analysis not only identifies prospective problem loans but also dictates loan structuring, repayment schedules, and client relationship strategies, all of which, taken collectively, serve to mitigate defaults and improve overall loan portfolio quality. Some of these key informants reported that;

*“.....A thorough credit risk assessment ensures that we only extend loans to clients who have the capacity to repay, which significantly lowers default rates.....”* **Key Informant 3**

*“.....By evaluating collateral and categorizing borrowers by risk level, we can take preventive measures early, reducing the likelihood of non-performing loans.....”* **Key Informant 4**

#### 4.5 Relationship between credit monitoring and loan performance in ABSA

Table 6 uses a Likert scale with SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree), and SD (Strongly Disagree) to summarize respondents' answers about the relationship between credit monitoring and loan performance at ABSA Bank, Uganda.

**Table 6: The relationship between credit monitoring and loan performance in ABSA Bank**

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	F (%)	F (%)	F (%)	F (%)	F (%)
ABSA Bank regularly monitors loan repayment schedules of borrowers.	13 29.5%	19 43.2%	8 18.2%	2 4.5%	2 4.5%
Follow-up mechanisms are in place to detect early signs of potential loan default.	20 45.5%	10 22.7%	7 15.9%	4 9.1%	3 6.8%
Loan officers maintain continuous contact with clients to track their financial progress.	24 54.5%	10 22.7%	8 18.2%	2 4.5%	00
The bank effectively monitors the use of loan funds to ensure they serve the intended purpose.	23 52.3%	13 29.5%	3 6.8%	5 11.4%	00
Credit monitoring practices have improved the recovery of outstanding loans.	12 27.3%	15 34.1%	13 29.5%	1 2.3%	3 6.8%
Proper credit monitoring contributes to reducing loan losses in the bank.	23 52.3%	18 40.9%	3 6.8%	00	00

**Source:** *Primary data*

Table 6 represents the descriptive statistics on the relationship between credit monitoring and loan performance in ABSA Bank, Uganda. According to study, 93.2% of the respondents agreed that good credit monitoring contributes to reduced loan losses in the bank, and no respondent disagreed; 6.8% were not sure. This implies that long-term and effective monitoring is very much appreciated as a key driver of loan default minimization, with the underlying message that long-term credit monitoring can significantly protect the bank's financial interests.

The study also revealed that 81.8% of the subjects agreed that loan officers maintain regular contact with borrowers to track their payment history, 4.5% disagreed, while 18.2% did not know. This reveals that regular contact between borrowers and loan officers is perceived to be effective in tracking repayment performance, which suggests that maintaining good customer relationships can assist in enhancing early detection of potential repayment issues.

Furthermore, the findings illustrated that 81.8% of the respondents agreed that the bank is successful in monitoring the use of loan funds such that they are utilized for the intended purpose, whereas 11.4% disagreed and 6.8% were not sure. This suggests that it is necessary to ensure borrowed funds are utilized as intended, thus successful monitoring of the use of funds can avoid misuse and improve overall loan performance.

More so, the study found out that 68.2% of the respondents agreed that there are early warning systems for identifying early signs of likely default on loans, 15.9% disagreed, and 15.9% did not have any idea. This indicates that the early warning systems are partially effective, implying that re-enforcing follow-up processes can serve to further reduce non-performing loans.

In addition, the findings established that 61.4% of the respondents agreed that ABSA Bank methodically monitors loan repayment schedules of clients, 9.0% disagreed, and 18.2% were unsure. This shows that tracking repayment schedules is primarily utilized but with room to improve on in order to be complete and consistent for all clients, and that better tracking of schedules can lead to better compliance with repayment.

Lastly, the findings revealed that 61.4% of the respondents agreed that credit monitoring practices improved recovery of delayed loans, while 9.1% disagreed and 29.5% were unaware. This indicates that credit monitoring is believed to be moderately effective in enhancing loan recovery; implying further refinement of monitoring schemes can enhance repayment levels.

Overall, the study indicates that credit monitoring at ABSA Bank, Mukono, is effective and positively affects loan performance. The respondents agreed on most of the statements, indicating that client regular follow-up; check on utilization of funds, follow-up provisions, and repayment schedules monitor in combination assist in reducing loan losses and improving recovery. This indicates that strong credit monitoring systems need to be strengthened and maintained in order to guarantee good loan performance. The findings of the study concerning

the relationship between credit monitoring and loan performance in ABSA Bank, Uganda were further determined using Pearson's correlation that was conducted as shown below;

**Table 7: Pearson's correlation on credit monitoring and loan performance**

**Correlations**

		Credit monitoring	Loan performance
Credit monitoring	Pearson Correlation	1	.654**
	Sig. (2-tailed)		.000
	N	44	44
Loan performance	Pearson Correlation	.654**	1
	Sig. (2-tailed)	.000	
	N	44	44
**. Correlation is significant at the 0.05 level (2-tailed).			

**Source:** *Primary data*

The findings indicated in table above shows that there is a significant positive relationship between credit monitoring and loan performance in ABSA Bank, Uganda. This relationship is affirmed by ( $r = .654^{**}, p < .05$ ). This implies that effective credit monitoring positively impacts loan performance at ABSA Bank, suggesting that continuous oversight of loans enhances repayment rates and minimizes defaults.

**4.5.1 Effect of credit monitoring on loan performance in ABSA**

From the interviews conducted with the key informants who are; top officials from the management department in ABSA Bank, Mukono branch who include the branch manager, credit manager, and risk assessment officers, they were asked for their views on how continuous credit monitoring affects loan repayment and their responses were as follows;

The key informants highlighted that continuous credit monitoring significantly improves loan recovery at ABSA Bank, Mukono branch by keeping the bank updated on borrowers' financial behavior and repayment patterns. They cited that monitoring allows loan officers to track repayment schedules, detect early indicators of delayed payments, and address issues early enough prior to default. This regular checking, as per the respondents, ensures that the clients

remain accountable while the bank is able to initiate remedial measures early enough, like restructuring the loans or sending reminders, which ultimately leads to better loan performance.

Additionally, the respondents noted that ongoing credit monitoring enables the bank to verify that the funds lent are being directed to their intended purposes. They explained that by closely watching over the financial transactions of clients and project progress on a regular basis, the bank is able to identify potential misallocation of funds threatening repayment. This watchfulness enables the bank to intervene early, offer clients advice on better financial management, and make informed decisions regarding future credit extension. The key informants underscored that this forward behavior not only protects the bank's assets but also enhances borrowers' discipline and commitment to repayment responsibilities.

The contribution of credit monitoring in providing valuable data that informs risk management and decision-making was noted by the key informants. By continually analyzing repayment behavior and client performance, the bank can adjust its lending approaches, identify high-risk accounts, and implement targeted interventions. They explained that constant communication with the clients in the form of follow-ups and performance reviews encourages trust and communication that motivates timely repayment. The respondents concluded that effective credit monitoring not only reduces loan defaults but also improves the overall sustainability and profitability of the bank's loan portfolio. Some of these key informants reported that;

*“.....Regular monitoring allows us to detect repayment challenges early and intervene before they turn into serious defaults.....”* **Key Informant 5**

*“.....Continuous oversight of loans ensures that clients use the funds appropriately and remain committed to meeting their repayment schedules.....”* **Key Informant 6**

## CHAPTER FIVE

### DISCUSSION, SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.0 Introduction

The findings in reference to the literature are discussed in this chapter. Along with summarizing all of the findings from chapter four in light of the study's questions, it also makes conclusions, offers suggestions, and identifies some areas that warrant more research.

#### 5.1 Discussion of findings

##### 5.1.1 Relationship between credit risk identification and loan performance in ABSA

The findings of the study established that credit risk identification in ABSA Bank, Mukono branch, is extremely effective and positively affects loan performance. The findings are consistent with the literature by Siddique et al. (2022), who observed that systematic identification of potential credit risks significantly improves repayment levels and reduces non-performing loans in commercial banks. Similarly, Fadun and Silwimba (2023) noted that efficient credit risk identification, including scrutiny of borrower information and early warning signs, enhances financial stability and the performance of the loan portfolio. These observations are corroborated by ABSA Bank's descriptive findings, which reflected that most respondents agreed on the use of reliable tools, background checks, and early risk signs, demonstrating that effective risk identification processes contribute significantly to loan default reduction.

The study findings revealed that combining quantitative and qualitative assessments during credit risk identification enables ABSA Bank to structure loans appropriately, set realistic repayment terms, and implement mitigation measures. The findings relate with the literature by Mwakujonga and Komba (2024), who argued that integrating quantitative credit scoring models with qualitative evaluations enhances the accuracy of predicting borrower defaults. In addition, Addy et al. (2024) emphasized that the use of full predictive analytics in risk assessment allows banks to make knowledgeable lending decisions, thereby reducing financial losses. The ABSA Bank findings also confirm that systematic and integrative assessment traditions are pivotal to loan performance improvement and financial sustainability.

The research findings revealed that the positive strong correlation between credit risk identification and loan performance ( $r = 0.672$ ,  $p < 0.05$ ) demonstrates the necessity for proper risk identification for ensuring a healthy loan portfolio. The findings align with the literature by Agaba (2022) and Sowedi et al. (2024), who concluded that effective credit risk management practices, including identification and monitoring, positively affect the financial performance of Uganda's commercial banks. These studies augment the perception that effective risk identification not only avoids defaults but also enhances the profitability and efficiency of banks generally. Overall, findings from ABSA Bank are consistent with existing literature, reiterating the key role of credit risk identification in driving upper-level loan performance.

### **5.1.2 Relationship between credit risk assessment and loan performance in ABSA**

The findings from the research revealed that credit risk analysis in ABSA Bank, Mukono branch, was highly efficient in minimizing loan defaults and enhancing loan performance. The findings corroborate research by Siddique et al. (2022), who reported that strongly established borrower evaluation methods, including financial screening, income verification, and debt analysis, significantly reduce chances of non-performing loans and increase profitability for banks. Similarly, Al Zaidanin and Al Zaidanin (2021) observed that precise assessment of borrowers' creditworthiness and application of structured appraisal techniques have a positive influence on loan repayments, observing that accurate credit risk assessment is imperative towards sustaining the quality of loan portfolios in commercial banks. The findings in respondent consensus on collateral valuation, clear repayment terms, and process-oriented assessment procedures at ABSA Bank support these studies by highlighting the importance of systematic risk analysis in promoting repayment performance.

The study's findings identified that credit risk assessment at ABSA Bank facilitates early identification of high-risk borrowers, facilitates changes in loan terms, and facilitates continuous monitoring to restrain defaults. Findings align with the study by Fadun and Silwimba (2023), which had postulated that comprehensive credit risk analysis allows banks to implement risk-sensitive interventions that optimize loan recovery and portfolio stability. Olobo et al. (2021) also pointed out that precise financial statement analysis, cash flows, and debt commitments guide actionable credit risk management and minimize non-performing loans. The ABSA Bank findings also support the notion that systematic and data-driven evaluation techniques not only

identify at-risk problem loans but also inform customized repayment plans and monitoring strategies, thereby enhancing loan performance in general.

The findings of the study revealed that the high positive correlation between credit risk assessment and loan performance ( $r = 0.596$ ,  $p < 0.05$ ) underscores the significance of correct and accurate appraisal practice in having a good and healthy loan book. The findings align with research by Agaba (2022), who noted that Ugandan banks employing proper credit assessment procedures have improved payment performance and reduced default levels. Sowedi, Johnson, and Akena (2024) also argued that effective assessment procedures, including collateral validation and stipulated repayment assessments, improve the correctness of borrower behavior, thereby improving financial performance. Overall, findings at ABSA Bank concur with existing literature confirming that prudent credit risk analysis is key to minimizing non-performing loans, enhancing recovery, and enhancing profitability and banking business sustainability.

### **5.1.3 Relationship between credit monitoring and loan performance in ABSA**

The findings showed that continuous credit monitoring in ABSA Bank, Mukono branch, contributes significantly to loan reduction defaults and improved repayment performance. Findings are consistent with the literature presented by Agaba (2022), in which he pointed out that persistent monitoring of loan books, like tracking payment timelines and watching over clients' behavior, is key to loan recovery enhancement and non-performing loans minimization in Ugandan commercial banks. Similarly, Orichom and Omeke (2021) found that regular follow-ups of clients and monitoring the utilization of funds strengthen repayment habits and reduce financial risk, noting that regular and systematic credit surveillance is a critical component of prudent credit risk management. The ABSA Bank findings in that observing schedules, customer contact, and fund confirmation reduce loan losses are consistent with these studies, whereby they validate that actual life monitoring interventions have a direct correlation to enhanced loan performance.

Once more, the results of this research revealed that early warning systems and proactive loan officers' interventions in ABSA Bank enable the identification and offsetting of payment problems prior to defaults. The research concurs with the literature by Mwakujonga and Komba (2024), who contended that the use of early detection systems and proactive follow-ups enables

financial institutions to foresee potential loan defaults, making room for prompt corrective measures that enhance overall loan performance. Similarly, Addy et al. (2024) noted that predictive analytics and continuous tracking of borrowers' financial behavior optimize the ability of banks to address credit risk, such that loans are channeled towards their intended use and repayment is maintained as the core priority. ABSA Bank practice of using early warning systems and regular interaction with borrowers supports this, testifying that soundly designed and initiative-based monitoring systems are key to loan delinquency avoidance.

The findings of the research revealed that loan performance is strongly correlated with credit monitoring at ABSA Bank ( $r = 0.654$ ,  $p < 0.05$ ), and it proves that rigorous and continuous monitoring enhances the rates of repayment and portfolio quality. The summary is in accord with research conducted by Barugahare (2023), whereby he noted that frequent credit monitoring, as well as performance monitoring, enhances the financial results of microfinance companies in Uganda via reduction of defaults and higher recovery rates. Bakashaba, Lutaaya, and Arinaitwe (2022) contributed that banks with systematic payment behavior monitoring and constant communication with borrowers realize higher repayment satisfaction as well as fewer non-performing loans. Collectively, the studies corroborate the ABSA Bank findings, accentuating the fact that credit monitoring plays an important role in maintaining loan performance and financial health of banking entities.

## **5.2 Summary of findings**

The findings revealed that credit risk identification in ABSA Bank, Mukono branch, is highly effective and has a positive influence on loan performance. Descriptive findings revealed that the majority of the respondents were unanimous that effective credit risk identification reduces loan defaults, gives sufficient information to predict repayment ability, employs reliable tools and techniques, conducts thorough customer background checks, and detects warning signs of potential default. The key informant interviews also substantiated that consistent risk identification through a combination of quantitative and qualitative assessments helps the bank properly position loans, set realistic repayment, and undertake mitigation actions, thus enhancing loan quality and financial stability. Secondly, Pearson's correlation test established a positive correlation between identifying credit risk and loan performance ( $r = 0.672$ ,  $p < 0.05$ ), verifying that good identification of potential credit risks plays a direct part in higher repayment levels and

lower non-performing loans. Therefore, the findings highlight that good credit risk identification is a guarantee to maintain a strong loan book and minimize losses for ABSA Bank.

Furthermore, the findings established that credit risk assessment in ABSA Bank, Mukono branch, is highly effective and is in loan favor. Descriptive findings verified that the majority of respondents agreed that comprehensive evaluation of the borrower, adequate analysis of creditworthiness, adequate valuation of collateral, application of precise repayment requirements, and precision in assessment procedures all singly and collectively help in controlling non-performing loans. Key informant interviews also supported that rigorous analysis of financial data, cash flows, debt obligation, and income streams enables the bank to identify high-risk borrowers, adjust loan terms, and engage in proactive monitoring, thereby reducing defaults. Further, the assessment process ensures collateral sufficiency, risk-based client segmentation, and continuous updating of credit evaluation criteria, thereby optimizing predictive accuracy and recovery of loans. Pearson correlation test confirmed the positive relationship between credit risk assessment and loan performance ( $r = 0.596$ ,  $p < 0.05$ ), which indicated that effective and precise credit assessment contributed significantly towards superior repayment levels, lower non-performing loans, and superior overall loan portfolio performance in ABSA Bank.

Lastly, the findings indicated that credit monitoring at ABSA Bank, Mukono branch, is good and has a beneficial effect on loan performance. Descriptive findings indicated that the majority of respondents agreed that continuous monitoring of repayment plans, regular communication between loan officers and customers, verification of utilization of funds, and early warning systems as a whole lead to an increase in loan loss reduction and better recovery of past-due loans. Key informant interviews also helped to emphasize that ongoing monitoring enables the bank to oversee borrowers' financial behavior, detect preliminary indications of payment problems, act early, and ensure that the loans are applied for their intended purposes, which ensures borrower discipline and payment responsibility. Pearson's correlation test confirmed that there is a significant and positive correlation between loan performance and credit monitoring ( $r = 0.654$ ,  $p < 0.05$ ), indicating that proper and consistent monitoring of loans directly relates to higher repayment, lower defaults, and overall better loan portfolio performance at ABSA Bank.

### **5.3 Conclusions**

The study concludes that the identification of credit risk in ABSA Bank, Mukono branch, is an important factor in enhancing loan performance. Effective identification of potential credit risk, through extensive background verification, effective assessment tools, and early warning systems, enables the bank to anticipate and avoid potential defaults. The positive correlation ( $r = 0.672$ ,  $p < 0.05$ ) between credit risk identification and loan performance confirms that systematic and precise risk identification directly influences improved repayment rates and lowering of non-performing loans, and therefore bank financial stability and overall portfolio health.

Furthermore, the study concludes that sound credit risk assessment practices at ABSA Bank extensively improve loan performance. By analyzing financial accounts, sources of funds, debt load, and collateral adequacy of the borrowers, the bank can risk class sort, adjust loan terms, and implement active tracking. The significant positive correlation ( $r = 0.596$ ,  $p < 0.05$ ) between credit risk evaluation and loan performance indicates that stringent evaluation procedures increase predictive ability, lower defaults, and improve recovery levels, which indicates that credit evaluation is a critical factor in maintaining a strong and sustainable loan book.

Lastly, the study concludes that prudent credit surveillance in ABSA Bank contributes significantly towards improving loan performance. Ongoing monitoring of repayment schedules, frequent borrower contact, verification of funds, and early warning systems enable the bank to identify repayment difficulties at an early stage, respond quickly, and ensure appropriate use of loan funds. The significant positive relationship ( $r = 0.654$ ,  $p < 0.05$ ) between credit monitoring and loan quality only confirms that long-term and consistent monitoring enhances borrower discipline, reduces loan loss, and strengthens overall repayment levels, which once again highlights the need for constant credit monitoring in maintaining a healthy and profitable loan book.

### **5.4 Recommendations**

Based on the findings of the study, the following recommendations have been found necessary concerning the effect of credit risk management on loan performance of commercial banks in Uganda with specific focus on ABSA Bank, Mukono, Uganda.

The study recommends the need for ABSA Bank, Mukono branch, to consistently enhance its credit risk detection measures by adopting more advanced analytical tools and early warning systems. This will enable the bank to better forecast future defaults, identify high-risk borrowers more efficiently, and implement targeted mitigation strategies, thereby increasing loan repayment levels and minimizing non-performing loans.

The study also recommends the need for ABSA Bank to have and revise regularly a complete range of credit evaluation guidelines that include borrower financial statements, income sources, debt obligations, and cash flow patterns. Harmonizing and enforcing strictly these evaluation processes will enable the bank to guarantee the terms of loans are properly designed and collateral well scrutinized, which will improve improved-performing loans and reducing monetary losses.

Furthermore, the study recommends the need for ABSA Bank to enhance its credit monitoring by implementing systematic follow-up procedures and constant communication with borrowers. Constant monitoring of the payment schedules and loan utilization will equip the bank to detect early signals of repayment challenges, act early, and make borrowed funds work for their supposed purposes, hence improving borrower responsibility and recovery of the loans.

In addition, the study recommends the need for ABSA Bank to provide regular training for loan officers and risk assessment personnel in modern credit risk management techniques. Enhancing the knowledge and skills of the staff will increase the accuracy of the borrower analysis, optimize monitoring effectiveness, and assist timely corrective actions in case of delayed repayment, hence improving the overall loan portfolio performance.

Lastly, the study recommends the need for ABSA Bank to adopt a risk-based client segmentation framework to categorize borrowers according to their respective risk profiles. By directing attention and efforts towards high-risk clients while still monitoring continuously for all borrowers, the bank can optimize its credit management strategies, reduce default rates, and ensure long-term profitability and financial soundness.

## **5.5 Areas for further research**

Given that the purpose of this study was to investigate how credit risk management affected the loan performance of Ugandan commercial banks, with a particular emphasis on ABSA Bank in Mukono, the study suggests that similar research be conducted in other areas related to this subject. These areas of additional study include the following;

Future research should focus on examining the effect of credit risk management policies in different commercial banks in different regions of Uganda in order to provide comparative analysis of effectiveness.

Future studies can also investigate the impact of banking technologies like predictive analytics and automated monitoring systems on loan performance and credit risk management. Studies can also study how such extraneous factors as regulatory requirements, economic cycles, and market competition affect loan performance and credit risk management.

Finally, examining the influence of borrower-specific variables, i.e., business category, loan size, and financial literacy, on the performance of loan repayment would provide additional insights into the enhancement of credit risk management strategy in Ugandan commercial banks.

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## APPENDICES

### Appendix 1: Questionnaire

For employees in ABSA Bank, Mukono branch

#### Introduction and Purpose of Study

Dear Respondent,

I am Bantu Regina, a student pursuing a Bachelor's Degree in Business Administration at Uganda Christian University. I am working on a study titled *“Credit risk management and loan performance of commercial banks in Uganda: a case of ABSA Bank, Mukono, Uganda.”*

Your contribution is essential to the type of data needed for this study, which is why you were chosen to take part. Your submitted information will be kept completely secret and used only for academic purposes. Kindly spare some few minutes to respond to the following questions.

#### Section A: Background Data

*Please TICK the numbers representing the most appropriate responses for you in respect of the following items:*

1. Gender

a) Male       b) Female

2. Age

a) 21-30 years       b) 31-40 years

c) 41-50 years       d) Above 50 years

3. Education level

a) Certificate       b) Diploma

c) Degree       d) Masters

e) Others specify:.....

4. Which department do you belong to?

- a) Administration       b) Credit   
 c) Operations       d) Audit   
 e) I.T

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

- a) Less than 1 year       b) 1-5 years   
 c) 6-10 years       d) Above 10 years

***Guide for Completing the Questionnaire:***

**Note:** In the following sections, rate your degree of agreement on each statement under each objective using a scale of 5(Strongly Agree), 4(Agree), 3(Not sure), 2(Disagree) and 1(Strongly Disagree). Please answer questions by making a tick (√) on your preferred answer of choice.

**Section B: Credit Risk Management**

s. no	Statements	Responses				
		5	4	3	2	1
1	ABSA Bank has effective procedures for identifying potential credit risks before loan approval.					
2	Early warning signals of borrower default are adequately captured during risk identification.					
3	The bank uses reliable tools and techniques to identify credit risks among clients.					
4	Information gathered during risk identification is sufficient to predict borrower repayment ability.					
5	Customer background checks are thoroughly conducted during the credit risk identification stage.					
6	Proper credit risk identification has reduced the chances of loan defaults in the bank.					

<b>s. no</b>	<b>Credit risk assessment</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1	The bank conducts comprehensive assessments of borrowers before granting loans.					
2	Borrowers' creditworthiness is adequately evaluated through financial analysis.					
3	ABSA Bank ensures collateral security is sufficient and properly valued during assessment.					
4	The credit risk assessment process helps to minimize non-performing loans.					
5	The bank applies clear guidelines when assessing the repayment capacity of borrowers.					
6	The accuracy of credit risk assessment has a direct impact on loan performance.					
<b>s. no</b>	<b>Credit monitoring</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1	ABSA Bank regularly monitors loan repayment schedules of borrowers.					
2	Follow-up mechanisms are in place to detect early signs of potential loan default.					
3	Loan officers maintain continuous contact with clients to track their financial progress.					
4	The bank effectively monitors the use of loan funds to ensure they serve the intended purpose.					
5	Credit monitoring practices have improved the recovery of outstanding loans.					
6	Proper credit monitoring contributes to reducing loan losses in the bank.					

**Section C: Loan Performance in ABSA Bank, Uganda**

	<b>Statements</b>	<b>Responses</b>				
<b>s. no</b>	<b>Loan performance in ABSA Bank</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1	Loan recovery rates at ABSA Bank are generally satisfactory.					
2	The bank experiences a low level of non-performing loans.					
3	Effective loan performance has strengthened the bank's profitability.					
4	The repayment capacity of clients has improved loan performance at ABSA Bank.					
5	Loan performance is positively influenced by the bank's credit risk management strategies.					
6	ABSA Bank has maintained a sustainable level of loan portfolio quality.					

**Thank you very much for your cooperation**

## **Appendix 2: Interview Guide**

### **For the top management of ABSA Bank, Mukono branch**

Introduction

Dear Respondent,

I am Bantu Regina, a student pursuing a Bachelor's Degree in Business Administration at Uganda Christian University. I am working on a study titled "*Credit risk management and loan performance of commercial banks in Uganda: a case of ABSA Bank, Mukono, Uganda.*" Your contribution is essential to the type of data needed for this study, which is why you were chosen to take part. Your submitted information will be kept completely secret and used only for academic purposes. Kindly spare some few minutes to respond to the following questions.

#### **Section A: Introduction**

1. Tell me about yourself.
2. What position do you hold in ABSA Bank, Mukono Branch?
3. How long have you worked in this position?

#### **Section B: The relationship between credit risk identification and loan performance in ABSA Bank, Uganda**

4. How does ABSA Bank identify potential credit risks among borrowers?
5. In your view, how effective is credit risk identification in influencing loan performance?
6. What challenges do you face in identifying credit risks before loan approval?

#### **Section C: The relationship between credit risk assessment and loan performance in ABSA Bank, Uganda**

7. How does ABSA Bank assess borrowers' creditworthiness before loan approval?
8. In what ways does credit risk assessment contribute to reducing loan defaults?
9. What gaps do you see in the current credit risk assessment practices?

#### **Section D: The relationship between credit monitoring and loan performance in ABSA Bank, Uganda**

10. How does ABSA Bank monitor loans after disbursement?

11. In your opinion, how does continuous credit monitoring affect loan repayment?
12. What challenges do you face in monitoring clients to ensure loan performance?

**Thank you for your cooperation**