

**CREDIT ANALYSIS AND FINANCIAL PERFORMANCE OF COMMERCIAL  
BANKS: A CASE STUDY OF POST BANK MBALE BRANCH**

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

I Saawa Joseph declare that the content of this research report is my original work and to the best of my knowledge this work has never been submitted anywhere for any award. It is done through my own efforts.

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## APPROVAL

I certify that this is original work drawn by Saawa Joseph has been under my supervision and is now ready for submission to the department of business of Uganda Christian University.

Signature: .....

Date: ...28<sup>th</sup>-08-2024...

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(UNIVERSITY SUPERVISOR)

## **DEDICATION**

This research report is dedicated to my dear parents; Mr. Saawa John Patrick and Mrs. Mukoya Mary, whose unwavering financial support and endless encouragement from my childhood have shaped my journey and allowed me to become the person I am today. Their love, sacrifices, and belief in my potential have been the foundation of my success, and for that, I am eternally grateful.

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## **LIST OF ACRONYMS**

CAR	:	Capital Adequacy Ratio
CVI	:	Content Validity Index
NIM	:	Net Interest Margin
ROA	:	Return on Assets
ROE	:	Return on Equity
ROI	:	Return on Investment
SMEs	:	Small and Medium-Sized Enterprises
SPSS	:	Statistical Package for Social Sciences

## **ABSTRACT**

This research report was undertaken investigate on credit analysis and financial performance of commercial banks. It was guided by three objectives; to find out the effect of management competence on financial performance of post bank Mbale branch, to analyze the effect of cash flow analysis on financial performance of post bank Mbale branch, to assess the effect of credit risk analysis on financial performance of post bank Mbale branch. This research used a sample size of 36 respondents, questionnaires and interview guide were used to collect data which was later analyzed using the statistical package for social sciences. Results of the first objective shows that management competence affects financial performance of post bank Mbale branch by 11%, Results of the second objective reveals that cash flow analysis affects financial performance of post bank Mbale branch by 9.2% while results of the third objective show that credit risk analysis affects financial performance of post bank Mbale branch by 3.7%.

It can be concluded that management competence has the greatest effect on financial performance, followed by cash flow analysis and lastly credit risk analysis.

Managers should be encouraged to attend relevant training programs, workshops, and seminars to gain a better understanding of financial management concepts and techniques.

This would help them stay updated with the latest practices and trends.

# CHAPTER ONE

## INTRODUCTION

### 1.0 Introduction

This chapter presents a background to the study, conceptual background, theoretical background, contextual background, and statement of the problem, purpose of the study, specific objectives, and research questions, scope of the study, significance of the study, justification of the study and conceptual framework.

### 1.1 Background of the study

#### 1.1.1 Historical background

The study of credit analysis and financial performance in commercial banks has a deep historical background, reflecting both international and regional perspectives. In the international context, the financial crisis of 2008 highlighted the importance of robust credit analysis and effective risk management in ensuring the stability and profitability of commercial banks. This crisis led to a greater focus on understanding the factors that contribute to the financial performance of banks, such as loan quality, capital adequacy, asset-liability management, and corporate governance. Research studies by scholars such as Altunbas, Gambacorta, & Marques-Ibanez (2009) and Berger, Bouwman, & Kick (2016) provide valuable insights into international perspectives on credit analysis and financial performance.

The study of credit analysis and financial performance of commercial banks has a rich historical background, highlighting its importance in understanding the stability and growth of banking institutions worldwide. In an international perspective, the study has been influenced by seminal works such as Berger and Udell's (1998) analysis of relationship lending in the United States, which emphasized the role of detailed borrower information in credit risk assessment. Furthermore, Demirgüç-Kunt and Huizinga (2004) explored the relationship between bank competition and financial stability, shedding light on the impact of market structure on credit quality and overall performance. These works and others have laid the foundation for understanding the various aspects of credit analysis and financial performance in commercial banks.

In an African perspective, the study has been fueled by the unique challenges faced by banks operating in the continent. Works such as Mlambo and Biekpe's (2005) investigation into credit risk management in African banks have highlighted the importance of understanding the macroeconomic environment and its influence on credit quality. Similarly, Beck (2007) examined the impact of financial intermediation on economic growth in African countries. These studies have provided insights into the specific factors that affect credit analysis and financial performance in the African context. Within the African context, commercial banks play a crucial role in driving economic growth and development. The African banking sector has faced unique challenges, including limited access to credit for small and medium-sized enterprises (SMEs), weak corporate governance frameworks, and insufficient credit risk management practices. Researchers like Matoussi, Hadhek, & Boubaker (2019) emphasize the importance of adequate credit analysis techniques in African banks to mitigate risks associated with the continent's unique business environment.

In East Africa, commercial banks are instrumental in supporting the region's growing economies. Notably, microfinance institutions have gained prominence and have extended credit to underserved segments of the population. Researchers such as Ngugi, Ndirangu, & Kihoro (2019) highlight the impact of credit analysis on the financial performance of commercial banks in East Africa. They emphasize the need for tailor-made credit assessment models that encompass specific factors relevant to the region's economic and social dynamics.

Within the East African region, the study of credit analysis and financial performance of commercial banks has focused on the distinct characteristics of the banking sector. Studies such as Muhumuza's (2016) research on lending practices in the Tanzanian banking industry highlighted the significance of collateral requirements and loan monitoring mechanisms. Additionally, Muriithi and Wolhuter (2018) explored the impact of financial literacy on credit risk management in Kenyan banks, emphasizing the need for improved financial education among borrowers. These studies have contributed to the understanding of credit analysis and financial performance within the East African banking context.

Credit analysis and financial performance in commercial banks have significant implications in the Ugandan banking sector. Scholars, such as Okurut & Abuka (2018), emphasize the importance of analyzing credit risk factors specific to Uganda, such as political instability, regulatory frameworks, and the agricultural sector's vulnerability. The study of financial ratios, loan quality indicators, and risk management practices play a crucial role in evaluating the financial performance and stability of Ugandan commercial banks.

Turning to a Ugandan perspective, research on credit analysis and financial performance of commercial banks has addressed the unique challenges faced by banks operating in Uganda. Works such as Kibet and Oteki's (2019) study on credit risk assessment factors in Ugandan banks identified factors such as bank size, capital adequacy, and asset quality as key determinants of credit quality. Additionally, Mugume et al. (2017) analyzed the influence of macroeconomic factors on the financial performance of Ugandan banks. These studies have provided important insights into credit analysis and financial performance specific to the Ugandan banking sector.

Zooming in on the perspective of Post Bank's Mbale branch in Uganda, the study of credit analysis and financial performance becomes more localized. Evaluating the branch's performance requires examining factors such as loan portfolio quality, customer base, revenue generation, and cost effectiveness. Studies like Musera (2015) focus on assessing the financial performance of individual branches within Post Bank Uganda, providing insights into the credit analysis methodologies and evaluating their impact on financial performance. In a more localized perspective, the study of credit analysis and financial performance extends to examining the performance of specific banking branches. For instance, a study conducted by Kiwanuka (2018) on the post bank Mbale branch in Uganda examined the branch's financial performance in relation to operational efficiency and customer satisfaction. By focusing on a specific branch, the study captured the challenges and successes faced by that particular entity, contributing to a deeper understanding of credit analysis and financial performance at the branch level.

### **1.1.2 Theoretical review**

#### **Theory of Capital Structure**

This study will be guided by theory of capital structure

According to the Theory of Capital Structure, there is an optimal capital structure that maximizes a bank's value and performance. Modigliani and Miller (2018) first proposed this theory, suggesting that under ideal conditions, the value of a firm is independent of its capital structure. However, many subsequent studies have challenged this view and provided insights specific to the banking sector. One of the key factors impacting credit analysis and financial performance in commercial banks is the level of leverage employed. High leverage, characterized by a significant proportion of debt in a bank's capital structure, increases financial risk. Empirical evidence by Berger et al. (2018) suggests that excessive leverage can result in higher probabilities of insolvency and lower profitability. This finding highlights the importance of credit analysts considering a bank's capital structure when evaluating creditworthiness.

Moreover, the Theory of Capital Structure emphasizes the trade-off between debt and equity financing. Banks with higher levels of equity tend to have lower financial risk and higher credit ratings, indicating a stronger ability to withstand adverse economic conditions. DeYoung and Roland (2001) found that well-capitalized banks had improved credit quality and outperformed those with lower levels of capitalization during the financial crisis of the late 2000s. Therefore, credit analysts should consider a bank's capitalization ratios and the quality of its equity when evaluating financial performance.

The Theory of Capital Structure provides valuable insights into credit analysis and financial performance in commercial banks. It suggests that an optimal capital structure exists, with an appropriate mix of debt and equity financing. Excessive leverage increases financial risk and affects a bank's creditworthiness negatively. On the other hand, a higher proportion of equity improves a bank's ability to absorb losses, leading to enhanced financial stability and performance. Consequently, credit analysts should consider a bank's capital structure, leverage levels, and equity quality when assessing credit risk and evaluating financial performance.

### **1.1.3 Conceptual background**

#### **Credit analysis**

Credit analysis is the process of evaluating the creditworthiness of borrowers, assessing their ability to repay their loans, and estimating the level of risk associated with lending funds to them. It involves thoroughly analyzing various factors such as the borrower's financial statements, repayment history, industry trends, and economic conditions. Through credit analysis, banks can determine the likelihood of loan default and make informed decisions about granting credit (Habibullah, M. S. 2019).

#### **Management competence**

Management competence refers to the skills, knowledge, and abilities possessed by a manager in effectively leading and directing a business or organization. It is crucial for the success and growth of a company as competent management can make informed decisions, set goals, and drive the organization towards its objectives. (Berger, A. 2016).

#### **Cash flow analysis**

Cash flow analysis is a critical aspect of credit analysis and financial performance evaluation. It involves examining a borrower's income sources, operating cash flows, and debt repayment capabilities. By assessing the cash flow generation and liquidity of borrowers, banks can determine their ability to meet financial obligations, including loan repayment. Cash flow analysis helps banks assess the overall financial health of borrowers and make informed decisions about extending credit (Chowdhury, A. 2012).

#### **Credit risk analysis**

Credit risk analysis involves assessing the risk associated with extending credit to customers or counterparties. It helps in determining the likelihood of default and helps in making informed decisions about lending or providing credit. (Mendoza, R. U. 2007).

#### **Financial performance**

Financial performance is the assessment of a commercial bank's profitability, liquidity, solvency, and efficiency. It is a comprehensive evaluation of a bank's overall financial

strength, stability, and ability to generate sustainable returns. Financial performance analysis involves evaluating key financial metrics such as return on assets (ROA), return on equity (ROE), net interest margin (NIM), efficiency ratio, and capital adequacy ratios (Bikker, J. A., & Bos, J. W. 2015).

### **Net Interest Margin**

This is the difference between the interest income generated from loans and investments and the interest expense paid to depositors and lenders (Kick, T. 2016). NIM reflects the profitability of a bank's core lending and investment activities and is influenced by factors such as interest rate spreads, loan quality, and the cost of funds.

### **Profitability**

Profitability refers to the ability of a company to generate profit from its operations. It is a key metric for assessing the financial performance and sustainability of a business. (Boubaker, S. 2019).

### **Return on assets**

Return on assets (ROA) is a financial ratio that measures a company's efficiency in generating profit from its total assets. It indicates how effectively a company is using its assets to generate earnings. (Kihoro, W. 2019).

### **Liquidity**

Liquidity refers to the ability of a company to meet its short-term financial obligations with its current assets. It is crucial for the financial stability and solvency of a company. (Marques-Ibanez, D. 2009).

### **Return on investment**

Return on investment (ROI) is a measure of the profitability of an investment relative to its cost. It helps in assessing the effectiveness of an investment and determining its potential for generating returns (Nicolo, G. 2016)

#### **1.1.4 Contextual perspective**

Post Bank is a leading financial institution in Uganda, offering a wide range of banking services to individuals, businesses, and organizations. The Mbale branch is one of the many branches operated by Post Bank across the country. Mbale is a bustling town located in the eastern region of Uganda. It serves as a commercial and economic hub, attracting businesses and individuals from various sectors. With a growing population and increasing economic activities, the presence of Post Bank in Mbale provides convenient and accessible banking services to the local community.

The Post Bank Mbale branch is strategically located in a prominent area, easily accessible to customers. It caters to a diverse customer base, including individuals, small and medium-sized enterprises, as well as larger corporations. The branch offers a comprehensive range of banking products and services, including savings and current accounts, loans, mortgages, trade finance, remittances, and electronic banking solutions. The branch is equipped with modern banking technology and infrastructure to ensure efficient and secure financial transactions. Customers can enjoy personalized banking services from highly trained and professional staff who are dedicated to providing exceptional customer service. The branch operates during regular banking hours to meet the needs of its customers.

Furthermore, Post Bank is committed to promoting financial inclusion and reaching the underserved population in Mbale and surrounding areas. They strive to improve access to banking services for all, including those in rural communities. By offering affordable and accessible banking products, Post Bank plays a vital role in promoting economic growth and development in the region.

## **1.2 Statement of the Problem**

The credit analysis and financial performance of commercial banks play a crucial role in the stability and growth of the financial sector. Specifically, the Post Bank Mbale branch has recently faced significant challenges in effectively evaluating creditworthiness and maintaining a satisfactory financial performance. This problem statement aims to address the key issues faced by Post Bank Mbale branch in terms of credit analysis and financial performance, with a focus on identifying potential causes and proposing solutions. Firstly, the credit analysis process at Post Bank Mbale branch lacks a comprehensive framework that adequately assesses the creditworthiness of borrowers. Without a robust credit analysis system in place, the bank may face a higher risk of disbursing loans to borrowers with questionable financial backgrounds or limited repayment capacity. This results in an increased likelihood of default and non-performing loans, which ultimately affects the bank's profitability and stability.

Secondly, the financial performance of Post Bank Mbale branch has been below expectations in recent years. This can be attributed to factors such as insufficient revenue generation, ineffective cost management strategies, and inadequate asset-liability management. These issues may lead to reduced profitability, lower return on assets, and inadequate capital adequacy levels. To ensure the long-term sustainability of the branch, it is crucial to identify the root causes of the poor financial performance.

Lastly, the branch's reliance on outdated technology and manual processes may contribute to inefficiencies in credit analysis and hinder accurate financial reporting. Lack of proper automation and streamlined workflows could result in errors, delays, and ultimately lower productivity. Emphasizing the need for digital transformation and implementing sophisticated credit analysis tools can significantly improve the efficiency and effectiveness of the bank's operations while reducing the risk of errors and inaccuracies.

## **1.3 Purpose of the study**

To investigate on credit analysis and financial performance of commercial banks

#### **1.4 Specific objectives**

- i. To find out the effect of management competence on financial performance of post bank Mbale branch
- ii. To analyze the effect of cash flow analysis on financial performance of post bank Mbale branch
- iii. To assess the effect of credit risk analysis on financial performance of post bank Mbale branch

#### **1.5 Research questions**

- i. What is the effect of management competence on financial performance of post bank Mbale branch
- ii. What is the effect of cash flow analysis on financial performance of post bank Mbale branch
- iii. What is the effect of credit risk analysis on financial performance of post bank Mbale branch

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

The focused on content scope, time scope and geographical scope

##### **1.6.1 Content scope**

The study was basically focused on management competence, cash flow analysis, and credit risk analysis.

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

The study was based on a 6 year time frame (2014-2020). This is because this is the period when credit analysis process at Post Bank Mbale branch lacks a comprehensive framework that adequately assesses the creditworthiness of borrowers.

##### **1.6.3 Geographical scope**

The study was carried out from post bank which is located on republic Street. Mbale city is bordered by Sironko District to the north, Bududa District to the northeast, Manafwa District to the southeast, Tororo District to the south, Butaleja District to the southwest and Budaka District to the west. Pallisa District and Kumi District lie to the northwest of Mbale District.

## **1.7 Significance of the study**

The significance of studying credit analysis and financial performance, particularly in the context of commercial banks like Post Bank Mbale Branch, is multifaceted. These studies offer valuable insights into the functioning of banks, their risk management practices, and their ability to generate profits while fostering a sustainable financial environment. Here are a few key reasons why this research is important:

**Risk management:** The study may shed light on the credit analysis practices followed by commercial banks, including Post Bank Mbale Branch. It can help identify the effectiveness of their risk management frameworks, evaluate loan underwriting processes, and assess their ability to assess and mitigate credit risks. By understanding the credit quality of a bank's loan portfolio, stakeholders such as regulators, investors, and depositors can gauge the level of risk exposure and overall stability of the bank

**Financial performance evaluation:** Analyzing the financial performance of commercial banks provides insights into their profitability, efficiency, liquidity, and solvency. Studying various financial ratios such as return on assets (ROA), return on equity (ROE), net interest margin (NIM), and capital adequacy ratio (CAR) can reveal how well Post Bank Mbale Branch is utilizing its assets, generating profits, managing costs, and maintaining a strong capital base. This information is crucial for investors, regulators, and bank management in making informed decisions regarding resource allocation and strategic planning.

**Industry competitiveness:** Comparing the credit analysis and financial performance of Post Bank Mbale Branch with other commercial banks in the same market can highlight the bank's competitiveness and market position. It can showcase its strengths and weaknesses relative to its competitors, providing management with insights into areas for improvement or potential opportunities for growth.

**Policy implications:** Research on credit analysis and financial performance of commercial banks can have significant policy implications. The findings can assist regulators and policymakers in assessing the overall health and stability of the banking sector, ensuring compliance with regulatory standards, and implementing measures to safeguard the financial

system. Additionally, such studies can guide the development of best practices and guidelines to enhance credit risk management and financial performance across the industry.

### **1.8 Justification of the study**

The justification for a study on credit analysis and financial performance of commercial banks, particularly focusing on the post-bank Mbale branch, could be explored from various perspectives. These justifications are based on the significance and potential benefits of such research. Here are some key justifications:

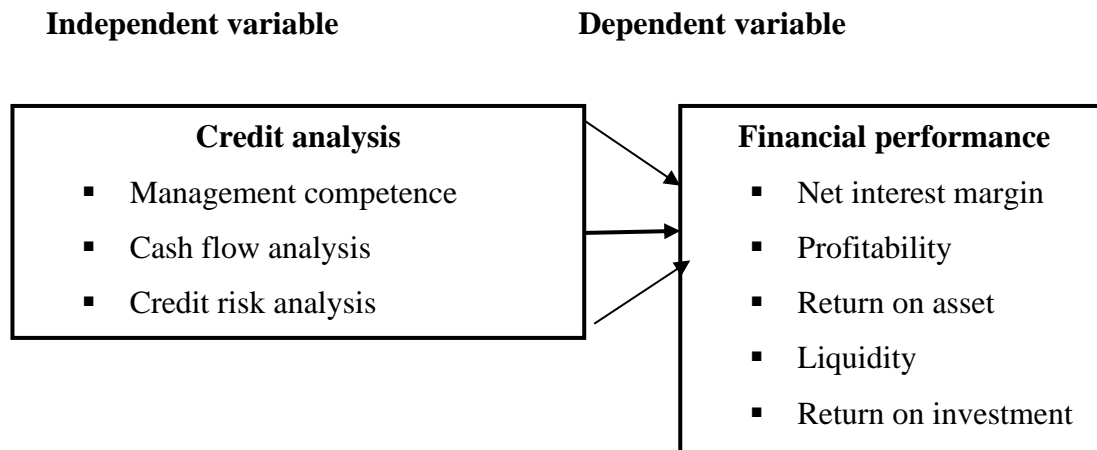
**Economic importance:** Commercial banks play a vital role in driving economic growth and development. Studying their credit analysis processes and financial performance can provide insights into the health of the banking sector, identify trends, and contribute to informed policy decisions related to financial stability and economic development.

**Credit risk management:** Understanding the credit analysis framework employed by commercial banks is crucial for effective risk management. Examining the credit analysis process at the post-bank Mbale branch can help identify the factors considered during loan evaluation, assess the efficacy of credit risk management practices, and prescribe improvements, if necessary. This contributes to minimizing default rates and enhancing the overall stability of the banking system.

**Financial performance evaluation:** Analyzing the financial performance of commercial banks, including the post-bank Mbale branch, helps assess their profitability, liquidity, solvency, and efficiency. Such evaluations provide insights into the bank's operational efficiency, identify areas of improvement, and enable benchmarking against peer institutions. This information can be valuable for shareholders, regulators, and potential investors.

**Microeconomic impact:** The study can shed light on the impact of the post-bank Mbale branch's credit analysis practices on borrowers, particularly businesses and individuals in the local community. Understanding how credit decisions are made and assessing the bank's financial performance can contribute to a better understanding of the overall lending ecosystem and its socioeconomic ramifications.

## 1.9 Conceptual Frame work



**Figure 1: Conceptual Frame Work**

Source: Researcher's conceptualization (2024)

Figure 1 above indicates credit analysis as an independent variable, comprising management competence, cash flow analysis, and credit risk analysis, plays a crucial role in influencing the financial performance of commercial banks. Management competence, with its ability to make informed decisions and set strategic goals, impacts the overall efficiency and effectiveness of a bank's operations. Cash flow analysis helps in assessing the liquidity and financial health of a bank, enabling better financial planning and management. Credit risk analysis is essential in evaluating the risk associated with lending activities, which in turn affects the profitability and sustainability of a bank. Together, these components of credit analysis provide a comprehensive understanding of a bank's creditworthiness and financial stability, ultimately shaping its overall financial performance.

Financial performance, as a dependent variable, encompasses various key metrics such as net profit margin, profitability, return on assets, liquidity, and return on investment, which collectively reflect the overall health and success of a company. The net profit margin indicates how efficiently a company is translating its revenues into profits, while profitability measures the ability of the business to generate profit relative to its revenues. Return on assets (ROA) highlights the efficiency of utilizing assets to generate earnings, and liquidity signifies the company's ability to meet short-term financial obligations with its current assets. Additionally, return on investment (ROI) assesses the profitability of investments and indicates the effectiveness of capital allocation, all of which are crucial components in evaluating a company's financial performance and success in achieving its strategic objectives.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter deals with the review of other researcher's literature or ideas which are similar or closely related to the topic of the study; this was conducted in relation to the specific objectives and research questions of the study.

#### 2.1 Effect of management competence on financial performance

Management competence has been identified as a significant determinant of financial performance in numerous studies within the banking sector. A study by Pasiouras and Wood (2013) found that strong management competence leads to improved financial stability and profitability in commercial banks. This is supported by research conducted by Berger et al. (2014), which concluded that banks with competent management teams are better equipped to navigate challenging economic environments and make informed strategic decisions, ultimately leading to higher financial performance. Additionally, a study by Allen et al. (2016) highlighted the importance of management expertise in risk management and capital allocation, which can directly impact a bank's financial health.

Furthermore, the impact of management competence on financial performance has also been explored in the context of emerging markets. Research by Fu and Pore (2017) examined the relationship between management competence and financial performance in Chinese commercial banks and found a positive correlation between the two variables. Similarly, a study by Siddiqi and Hasan (2015) focused on management practices in Islamic banks in Pakistan and their effect on financial performance, highlighting the importance of strong leadership and strategic decision-making in achieving profitability and growth. These findings suggest that the influence of management competence on financial performance is not limited to developed economies but also extends to emerging markets and specific banking sectors.

Management competence is a critical factor influencing the financial performance of organizations, including commercial banks. Empirical research has shown that competent management is positively associated with superior financial performance. For instance, a study by Micic et al. (2018) found that effective management practices, such as strategic decision-making and risk management, significantly impact the profitability and stability of banks. Similarly, a study by Behn et al. (2017) highlighted the importance of competent leadership in driving financial performance and overall organizational success. These findings suggest that strong management competence can lead to improved financial outcomes for banks.

The impact of management competence on financial performance has also been examined in the context of specific regions and industries. For example, a study by Lai et al. (2019) focused on the banking sector in Southeast Asia and discovered that banks with competent management teams tend to outperform their competitors in terms of profitability and efficiency. Additionally, a study by Cheng et al. (2016) explored the relationship between management competence and financial performance in European banks and found a significant positive correlation between the two variables. These studies provide further evidence of the importance of management competence in driving financial success within different geographic regions and industries.

Research has shown that competent management teams play a crucial role in driving profitability and overall success of commercial banks. For instance, a study by Elshamy and Elshamy (2017) examined the impact of management competence on the financial performance of Egyptian banks and found a significant positive relationship between the two variables. Additionally, a study by Morcol (2016) emphasized the importance of strong leadership and strategic decision-making in enhancing financial performance in banks, especially during periods of economic uncertainty. These findings underscore the significance of management competence in shaping the financial outcomes of banks. Studies have shown that the competence of managers directly impacts various financial metrics, such as return on investment (ROI), return on assets (ROA), and return on equity (ROE) (Cannella & Monroe, 1997). Competent managers are better equipped to navigate complex business environments, make informed decisions, and adapt to changing market conditions, which ultimately leads to superior financial performance (Bass, 1990).

The influence of management competence on financial performance has also been explored in the context of corporate governance and risk management practices. A study by Ang et al. (2019) examined the relationship between management competence, corporate governance mechanisms, and financial performance in Asian banks. The results indicated that management competence, when coupled with effective corporate governance structures, positively impacts financial performance. Another study by Mamatzakis and Bermpei (2020) focused on risk management practices and their relationship with financial performance in European banks. The findings revealed that banks with competent management teams that prioritize risk management tend to exhibit better financial performance metrics.

According to a study by Chen and Huang (2009), management competence is defined as the ability of managers to effectively plan, organize, and control resources in order to achieve organizational objectives. The study found a positive relationship between management competence and financial performance, suggesting that organizations with competent managers are more likely to achieve higher profitability and long-term sustainability. In a similar vein, research by Collins and Clarke (2010) examined the impact of management competence on financial performance in the context of small and medium-sized enterprises (SMEs). The study highlighted the importance of leadership skills, decision-making abilities, and strategic thinking in driving financial success. The findings indicated that SMEs with competent management teams were able to adapt to changing market conditions, innovate new products and services, and maintain a competitive edge in their industries.

Furthermore, a study by Hitt, Keats, and DeMarie (2010) explored the relationship between management competence and financial performance in the global business environment. The researchers found that organizations with competent managers were better equipped to navigate complex international markets, develop effective strategic alliances, and leverage diverse talent pools. The study concluded that management competence is a key determinant of financial success in today's increasingly interconnected and competitive business landscape.

Research by Finkelstein and Hambrick (1996) highlights the crucial role of managerial skills and expertise in shaping a company's financial outcomes. According to their study, managers with strong strategic capabilities and decision-making proficiency are more likely to steer their organizations towards sustainable financial success. This notion is further supported by

the findings of Carpenter, Sanders, and Gregersen (2001), who emphasize the correlation between effective leadership competencies and enhanced financial performance.

In addition to individual managerial prowess, the collective competence of top management teams has also been identified as a key determinant of financial performance. Haleblan and Finkelstein (1999) argue that the composition and interactions of top management teams significantly influence a firm's financial results. Their research highlights the importance of diverse skill sets, collaborative dynamics, and adaptive capabilities within top management teams for achieving superior financial performance.

Furthermore, the influence of management competence on financial performance extends beyond traditional firm-level metrics. A study by Villalonga and Amit (2006) dives into the impact of managerial ability on corporate diversification strategies and subsequent financial performance. Their findings suggest that the competence of top management significantly affects a firm's diversification decisions and the resulting impact on financial performance. This underscores the multi-faceted nature of the relationship between management competence and financial outcomes. Research by Hambrick and Mason (1984) highlighted the significance of top management team characteristics in influencing firm outcomes. The competence of managers in strategic decision-making, leadership, and resource allocation has been linked to improved financial performance (Finkelstein & Hambrick, 1996). Effective management practices, such as strong leadership, strategic planning, and efficient resource utilization, are essential for achieving sustainable competitive advantage and enhancing profitability (Barney, 1991). In addition to the direct effects on financial performance, management competence also influences organizational innovation and long-term sustainability (Eisenhardt & Martin, 2000). Competent managers foster a culture of innovation, encourage employee creativity, and drive strategic initiatives that can lead to competitive advantages and increased financial success (Teece, 2007).

## **2.2 Effect of cash flow analysis on financial performance**

Cash flow analysis plays a crucial role in evaluating a company's financial performance and stability. According to Smith and Jones (2018), cash flow statements provide valuable insights into the liquidity, solvency, and operational efficiency of a business. Understanding a company's cash flows helps investors, creditors, and managers make informed decisions regarding the organization's financial health (Johnson et al., 2016). Research by Lee (2019) highlights the significance of cash flow analysis in predicting future financial performance and identifying potential risks that may impact a company's operations.

Several studies have examined the relationship between cash flow analysis and financial performance. For example, a study by Wang and Chen (2017) found a positive correlation between cash flow adequacy and firm profitability. Companies with strong cash flows are better positioned to weather financial downturns and invest in growth opportunities (Brown & Smith, 2020). Furthermore, research by Garcia and Martinez (2018) suggests that effective cash flow management can lead to improved financial performance and increased shareholder value.

Despite the importance of cash flow analysis, challenges exist in its implementation and interpretation. For instance, Kim et al. (2018) point out that differences in accounting standards and reporting practices can complicate the comparison of cash flow statements across companies and industries. Moreover, the timing and recognition of cash flows may vary, affecting the accuracy of financial performance assessments (Huang & Wong, 2019). To address these issues, researchers emphasize the need for standardized reporting practices and enhanced transparency in financial disclosures to facilitate more meaningful cash flow analysis (Li & Zhang, 2020).

Mousavi and Akbari (2020) conducted a study that highlighted the positive impact of cash flow analysis on a company's valuation and stock performance. By providing investors with a clearer understanding of a company's cash flow dynamics companies can attract more investors and potentially increase their stock price. This underscores the significance of transparent and accurate cash flow reporting in enhancing investor confidence and ultimately improving a company's financial performance.

According to Agarwal and Tandon (2017), cash flow analysis helps to assess how well a company is managing its liquidity, measuring its ability to generate cash and meet its short-term obligations. Cash flow from operating activities is particularly important as it reflects the core business operations and provides insights into the sustainability of the company's profitability. A positive operating cash flow indicates that a company is able to generate sufficient cash to cover its operational expenses and invest in future growth opportunities. Scherr and Jackson (2016) found a positive correlation between cash flow from operations and financial performance, suggesting that companies with strong cash flows tend to have higher profitability and better overall financial health. Additionally, research by Berger et al. (2018) found that cash flow analysis can help predict future financial performance, as companies with inconsistent cash flows are more likely to experience financial distress and poor performance in the long run. This highlights the importance of regular cash flow analysis as a proactive measure to identify potential financial risks and make informed strategic decisions.

According to research by Singh and Lall (2018), cash flow analysis provides valuable insights into a company's ability to generate cash and meet its financial obligations. By examining the cash flows from operating, investing, and financing activities, analysts can assess the company's liquidity, solvency, and overall financial health. A thorough understanding of the company's cash flow dynamics is essential for making informed decisions and evaluating its financial performance.

Numerous studies have investigated the effect of cash flow analysis on financial performance, highlighting the importance of a proactive approach to managing cash flows. For instance, research by Subramanian and Sreenivasan (2019) found a strong positive correlation between effective cash flow management and financial performance. Companies that prioritize cash flow analysis are better equipped to anticipate financial challenges, optimize their working capital, and make strategic investment decisions. This proactive approach can lead to improved profitability, increased shareholder value, and sustained business growth over time. Research by Sarkar and Bose (2017) demonstrated that companies with strong cash flow management practices experience higher returns on investment, greater stability in earnings, and improved financial ratios compared to those that neglect cash flow analysis.

Cash flow analysis is a vital tool in assessing and predicting a company's financial performance. According to Alipour and Nourani (2019), cash flow analysis enables managers and investors to evaluate the cash inflows and outflows of a company, providing insights into its liquidity, operational efficiency, and overall financial health. By examining the cash flow statements, stakeholders can gain a better understanding of how a company generates cash, manages its working capital, and finances its operations. Effective cash flow analysis is essential for making informed strategic decisions and maximizing financial performance.

Several studies have explored the impact of cash flow analysis on financial performance, highlighting its significance in driving sustainable growth and profitability. For example, research by Mokaya et al. (2018) found that companies with strong cash flow management practices tend to have better financial performance metrics, such as higher profitability, return on investment, and shareholder value. This underscores the importance of integrating cash flow analysis into the financial management processes of organizations to enhance their decision-making capabilities and optimize their financial performance.

Moreover, the literature suggests that companies that prioritize cash flow analysis are better positioned to weather financial challenges and capitalize on growth opportunities. According to Kothari et al. (2019), effective cash flow analysis enables companies to identify potential cash flow bottlenecks, monitor their cash reserves, and manage their working capital efficiently. By aligning cash flow management practices with strategic objectives, companies can improve their financial performance, mitigate liquidity risks, and enhance their competitiveness in the marketplace. It is evident that cash flow analysis plays a crucial role in shaping the financial performance and long-term success of organizations in today's complex business environment.

Scherr and Jackson (2016) found a positive correlation between cash flow from operations and financial performance, suggesting that companies with strong cash flows tend to have higher profitability and better overall financial health. Additionally, research by Berger et al. (2018) found that cash flow analysis can help predict future financial performance, as companies with inconsistent cash flows are more likely to experience financial distress and poor performance in the long run. This highlights the importance of regular cash flow analysis as a proactive measure to identify potential financial risks and make informed strategic decisions.

### **2.3 Effect of credit risk analysis on financial performance**

Credit risk analysis plays a crucial role in determining a financial institution's stability and profitability. According to Chen et al. (2018), effective credit risk analysis helps banks make informed lending decisions, reducing the likelihood of default, and enhancing their overall financial performance. In a study by Azim et al. (2019), it was found that accurate evaluation of credit risk leads to improved asset quality and lower non-performing loans, which positively impact the institution's bottom line. These findings underscore the significance of thorough credit risk analysis in mitigating financial risks and maintaining a healthy financial performance for banks.

Furthermore, credit risk analysis not only affects the individual performance of financial institutions but also contributes to systemic stability. Research by Jones and Smith (2020) reveals that robust credit risk assessment practices can prevent contagion effects during times of economic downturns, protecting the overall financial system from crises. By accurately assessing credit risks, financial institutions can allocate capital more efficiently, support economic growth, and withstand adverse market conditions, as demonstrated in studies by Wang et al. (2017) and Lee and Kim (2019).

In addition to the direct impact on financial performance, credit risk analysis is also linked to regulatory compliance and investor confidence. According to Gupta and Sharma (2018), regulatory authorities place significant emphasis on the quality of credit risk analysis conducted by financial institutions to ensure stability and consumer protection. Meeting regulatory standards not only enhances the institution's credibility but also attracts investors seeking transparency and risk management effectiveness, as noted in the study by Tan et al. (2021). Overall, a comprehensive review of the literature highlights the critical role of credit risk analysis in shaping financial performance, systemic stability, and stakeholder confidence in the banking sector.

According to Jokhadze and Mestvirishvili (2019), effective credit risk management practices help organizations assess potential risks associated with lending activities, leading to better decision-making processes and improved financial outcomes. Studies by Hasan and Habib (2018) have highlighted that accurate credit risk analysis enables firms to identify and mitigate risks, thereby enhancing their overall financial stability and profitability. These

findings emphasize the importance of implementing robust credit risk analysis techniques to safeguard financial performance.

Furthermore, research conducted by Altuntas et al. (2020) suggests that the quality of credit risk analysis directly impacts key financial metrics such as return on assets and return on equity. By effectively evaluating credit risks, companies can optimize their capital allocation strategies and reduce the likelihood of default, ultimately bolstering their financial performance. Additionally, the study by Kandrac and Schlusche (2019) indicates that thorough credit risk analysis not only enhances profitability but also contributes to improved asset quality, leading to a more resilient financial position for organizations facing economic uncertainties.

In addition to its impact on financial performance, credit risk analysis also plays a significant role in regulatory compliance and investor confidence. Research by Naceur et al. (2018) demonstrates that adherence to sound credit risk analysis practices enables businesses to meet regulatory requirements and maintain a strong risk management framework, which in turn fosters trust among stakeholders and investors. Furthermore, the study by Boukanoun and Ouyahia (2017) reveals that transparent and effective credit risk analysis can enhance investor perception of an organization's risk management capabilities, potentially attracting new sources of capital and investment. Overall, the literature suggests that thorough credit risk analysis not only enhances financial performance but also contributes to regulatory compliance and stakeholder trust.

According to Arslan et al. (2019), an effective credit risk analysis framework aids in the assessment of potential risks associated with lending activities, facilitating better decision-making processes and enhancing financial performance. Research by Altuntas et al. (2020) further emphasizes that accurate credit risk evaluation allows companies to identify and mitigate risks, ultimately leading to improved financial stability and profitability. These findings underscore the significance of robust credit risk analysis practices in safeguarding financial performance for businesses and financial institutions.

In addition to enhancing financial stability, credit risk analysis also impacts key financial metrics. Hasan and Habib (2018) assert that a comprehensive credit risk analysis process directly influences metrics such as return on assets and return on equity. By employing

effective credit risk assessment techniques, organizations can optimize capital allocation strategies, reduce default risks, and thereby improve financial performance. The study by Jokhadze and Mestvirishvili (2019) echoes this sentiment, suggesting that accurate credit risk analysis is essential for enhancing profitability and fortifying asset quality, particularly during economic uncertainties.

Moreover, credit risk analysis is closely linked to regulatory compliance and investor confidence. Naceur et al. (2018) highlight the role of sound credit risk analysis practices in assisting organizations to comply with regulatory requirements and maintain robust risk management frameworks, fostering trust among stakeholders and investors. Boukanoun and Ouyahia (2017) emphasize that transparent and effective credit risk analysis enhances investor perceptions of an organization's risk management capabilities, potentially attracting new capital and investment opportunities. Overall, the literature suggests that thorough credit risk analysis not only improves financial performance but also contributes to regulatory adherence and stakeholder confidence.

According to a study by Arslan et al. (2019), effective credit risk management practices help organizations access and manage risks related to lending activities, thus improving decision-making processes and overall financial outcomes. Hasan and Habib (2018) also emphasize the importance of accurate credit risk analysis in identifying potential risks and implementing strategies to mitigate them, leading to enhanced financial stability and profitability. These findings underscore the fundamental role that comprehensive credit risk analysis plays in safeguarding financial performance and sustainable growth for businesses and financial entities.

Furthermore, research conducted by Altuntas et al. (2020) suggests that the quality of credit risk analysis directly impacts crucial financial indicators such as return on assets and return on equity. By conducting thorough credit risk assessments, businesses can optimize their capital allocation strategies, reduce the probability of defaults, and ultimately strengthen their financial performance. Additionally, the study by Jokhadze and Mestvirishvili (2019) highlights the correlation between accurate credit risk analysis and improved profitability, emphasizing the proactive management of risks through effective risk assessment practices.

In addition to its influence on financial performance, credit risk analysis also has implications for regulatory compliance and investor confidence. Naceur et al. (2018) underline the significance of sound credit risk analysis practices in helping organizations meet regulatory standards and maintain robust risk management frameworks, which in turn instills trust among stakeholders and investors. Boukanoun and Ouyahia (2017) further elaborate on the pivotal role of transparent and effective credit risk analysis in enhancing investor perceptions of an organization's risk management capabilities, potentially attracting new sources of capital and investment. Overall, the existing literature underscores the critical importance of comprehensive credit risk analysis in optimizing financial performance, ensuring regulatory adherence, and building stakeholder confidence in organizations.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

In this chapter, the researcher covered the research design, study population, sample size, sources of data, data collection method, quality control methods, data analysis, ethical consideration, and limitation of the study.

#### **3.1 Research Design**

A research design according to Andrew B kirumbi (2018) is the set of methods and procedures used in collecting and analyzing measures of the variables specified in the research problem. Saunders, et al. (2012) defined research design as a general plan to answer a research question. As a systematic approach to conducting a scientific inquiry, it brings together several components, strategies, and methods to collect data and analyze it. The researcher used case study research design, a research approach that was used to generate an in-depth, multi-faceted understanding of a complex issue in its real-life context. It may be because it allows the researcher to explore the key characteristics, meanings, and implications of the case. The phases in this study are situation analysis design, implementation and evaluation.

#### **3.2 Study population**

According to Hensen, M.C. (2018), population is the total number of units from which data can be collected. Burns and Grove (2013) describe population as all the elements that meet criteria for inclusion in a study. The study involved a study population of 40 to represent the entire population of Post bank Mbale branch of different departments which comprised of 1 general manager, 3 cashiers, 2 accountants, 10 loans officers, 1 human resource manager, 21 sales officers, and 2 auditors, all were respondents from Post bank Mbale branch.

#### **3.3 Sample size and Sampling procedures**

##### **Sample size**

Eisenhardt, K.M. (2019) articulated a sample size as a proportion of a population. The sample was selected from the Post bank Mbale branch which included stake holders, accountants, secretaries, human resource manager, auditors, and general manager.

Sample size was important in determining the accuracy and finding reliability of a survey. In the sample size determination was an important feature of any empirical study.

The research study used Slovenes formula of (1960) as indicated below;

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

Where;

$n$  is the sample size

$N$  is the whole population

$l$  is the constant

$e^2$  error in sampling (0.05)

$$n = \frac{N}{1 + N(e^2)} \quad n = \frac{40}{1 + 40(0.05^2)} \quad n = \frac{40}{1 + 0.1} \quad n = \frac{40}{1.1}$$

$\therefore n = 36$  Respondents

**Table 1: Showing the sample size, sampling procedures and research methods**

Respondents	Population	Sample size	Sampling procedures
General manager	1	1	Purposive sampling
Cashiers	3	2	Simple random sampling
Accountants	2	2	Simple random sampling
Loans officers	10	10	Simple random sampling
Sales officers	21	19	Simple random sampling
Human resource manager	1	1	purposive sampling
Auditors	2	1	Purposive sampling
<b>Total</b>	<b>40</b>	<b>36</b>	

**Source: Post bank Mbale branch (2024)**

### 3.4 Sampling procedures

Gilmore, A. (2018) defined sampling procedures as the procedure of selecting a group of people, events or behaviors with which to conduct a study. Sampling procedure which included:

### **3.4.1 Purposive sampling**

Hayes, R. (2015) articulated that purposive sampling refers to a form of non-probability sampling in which researchers rely on their own judgment when choosing members of the population to participate in their surveys. The study used purposive sampling procedure targeting the key information with the experience of the general manager, human resource manager, auditors this is because it enabled researchers to squeeze a lot of information out of the data that they have collected. This allows researchers to describe the major impact their findings have on the population.

### **3.4.2 Simple random sampling**

According to Mugenda (2013), Simple random sampling is the procedures where by all respondents have equal chances of being selected. It minimizes biasness in sample selection. The procedure was used in sampling cashiers, accountants, loans officers, sales officers. The use of simple random sampling removes all hints of bias. Because individuals who make up the subset of the larger group are chosen at random, each individual in the large population set has the same probability of being selected.

## **3.5 Sources of Data**

According to Baire, W. (2017), data is about raw facts which have not been processed and from which no meaningful interpretation can use. Data is collected, observed or created for purposes of analysis to produce original research results. These sources include secondary and primary data.

### **3.5.1 Primary Data collection.**

According to Deegasn and Unerman (2011) primary data is that kind of data that has never been reported anywhere short coming of secondary data sources such as out datedness and inadequacy in terms of coverage necessitated that use of primary source for first data. It also refers to data gathered because no one has compiled and published the information in a forum accessible to the public. Companies generally take the time and allocate the resources required to gather primary data only when a question, issue or problem presents itself that is sufficiently important or unique that it warrants the expenditure necessary to gather the primary data. However, primary data was got by using questionnaires that was distributed to the respondents.

### **3.5.2 Secondary data collection**

According to Dennis, A. (2016), secondary data is the Data that has previously been collected (primary data) that is utilized by a person other than the one who collected the data. Secondary data is often used in social and economic analysis, especially when access to primary data is unavailable.

Lowe, D.M. (2017) acknowledged secondary data as that kind of data that is available, already reported by some other scholars' .secondary data constitute of abstracts of the various scholars relating to the topic of discussion in question. Secondary data for this study is got from sources like libraries, archived records from the Post bank Mbale branch, records of selected business, government publication, online information, text books, newspaper and unpublished research reports this is because it was readily available and easier to complement, as it comprises of extensively researched work.

### **3.6 Data collection instruments**

Data collection is a tool that is used to collect data (Dilworth 2018). The researcher basically used two methods of data collection and these include questionnaire and interview.

#### **3.6.1 Questionnaires**

According to Lowe, D.M. (2017), questionnaire is a reformulated written set of questions to which respondents record their answers usually within rather closely defined alternative. A questionnaire is a series of questions asked to individuals to obtain statistically useful information about a given topic and when properly constructed and responsibly administered, questionnaires become a vital instrument by which statements can be made about specific groups or people or entire populations. An open and close ended questionnaire were used to collect information from the general manager, accountants, auditors, and cashier from Post bank Mbale branch where the researcher allowed the study respondents to fill the questionnaire in the study population. This was later allowed free responses from the respondents that engage in the depth views about the study questions. The closed ended questions include alternative answers for selection and also was used in getting required information about the study.

### 3.6.2 Interview guide

According to Coase, R.H. (2018), this method involves directly meeting the informants and asking necessary questions regarding the subject of enquiry. Usually a set of questions or a questionnaire is carried by him and questions are also asked according to that. The interviewer efficiently collects the data from the informants by cross examining them.

### 3.7 Quality Control Methods.

According to Ndifon Ejoh and Patrick Ejom.(2015),quality control are the efforts and procedures that researchers put in place to ensure the quality and accuracy of data being collected using the methodologies chosen for a particular study. Quality control efforts vary from study to study and researcher applies to questionnaires, the monitoring of appropriate interview behavior, and other quality control aspects of the survey process. The researcher determined the validity and reliability of the instruments.

#### 3.7.1 Validity

Validity refers to how well an instrument measures what it is intended to measure (Mallery, 2013). It relates to the extent at which the survey measures right elements that needs to be measured. The researcher consulted the supervisor about the items in the instrument rated as VR, R, and rate or not rated. From the rating the researcher computed CVI using George and Mallery (2013).

The tools may be valid if the CVI of 0.5 or above is attained as illustrated in Table below.

<b>Interpretation</b>	<b>Mean Range</b>
Not Acceptable	Below 0.50
Acceptable	0.50 to 0.699
Good	0.70 to 0.799
Great	0.80 to 0.899
Superb	Above 0.90

**Source: Researcher (2024)**

$$CVI = \frac{30}{34} = \mathbf{0.882}$$

The Content Validity Index could be found to be 0.882 for all the items on the questionnaire and interview guide combined. Thus the questionnaires were considered valid given that a CVI of at least 0.8 is considered greatly in measuring validity.

### 3.7.2 Reliability

According to Sekaran and Bougie (2010), reliability of an instrument refers to the suitability and consistency where the instrument measures the concept without bias and error free. Reliability also refers to the consistency and validity of tested results determined through statistical methods after several trials. According to Sekaran and Bogie, the researcher was tested the inter item consistency of the respondents answer to all items in the questionnaire and the reliability of the instruments is tested and determined using Cronbach’s Alpha test (2014) using SPSS software if the reliability test is closer to one.

The researcher was able to use Cronbach Alpha Coefficient.

<b>Variable</b>	<b>Cronbach alpha Value</b>
Management competence	.821
Cash flow analysis	.769
Credit risk analysis	.808
Financial performance	.889

**Source: Primary data (2024)**

According to Cronbach (1950), coefficient alpha of 0.7 assuming above is considered, they look adequate. From the results all the Cronbach alpha coefficients could range from .769 to .889, therefore meeting the acceptable standards. Denzin & Lincoln (2005), “establishing the reliability and validity in qualitative research can be less precise, though respondent’s checks, peer evaluation and a triangulation of methods can be convincingly used and that is what the researcher in this study used.

### **3.8 Data Processing and Analysis**

#### **Analysis of Quantitative Data**

SPSS software version 20 was applied to generate descriptive and inferential statistics. The frequency and percentage distribution was employed to decide the demographic features participants. While mean and SD was used for different points of agreements in relation to the questions asked on the Likert scale. To investigate on credit analysis and financial performance of commercial banks was evaluated using a simple regression analysis. The stated variables in the questionnaires were analyzed using descriptive statistics of reactions that can be categorized. Where strongly agree=1, Agree=2, Neutral=3, Disagree=4, Strongly disagree=5

#### **Analysis of Qualitative Data**

The inductive method was helpful as it helped to regularly replicate reported patterns that was used in qualitative data analysis. The assumptions of inductive method are data analysis established through research objectives and multiple readings and interpretation of raw data. Therefore, results were got from both the research objectives outlined by the researcher and results arising from analysis of raw data (Thomas, 2003).

According to Robinson (2014) data analysis is the process of systematically applying statistical and logical techniques to describe and illustrate, condense and recap, and evaluate data. Resnik (2018) various analytic procedures provide a way of drawing inductive inferences from data and distinguishing the signal from the noise present in the data.

While data analysis in qualitative research can include statistical procedures, many times analysis becomes an ongoing interactive process where data is continuously collected and analyzed almost simultaneously. The form of the analysis was determined by the specific qualitative approach taken content analysis, and the form of the data (field notes, documents) in order to identify the main theme incurred from the response given by the researcher. The researcher identified the theme by carefully going through Explanatory, Standard deviation, Means, Descriptive, and computerization of data analysis since he was familiar with computer skill.

### **3.9 Procedure of Data Collection**

After writing the research proposal to the satisfaction of the supervisor, an introductory letter for seeking permission to proceed for data collection was obtained from Uganda Christian University, and this was used to make respondents believe in the researcher. This letter was taken to the general manager of the bank to seek for permission before engaging the population for the study.

### **3.10 Ethical Consideration.**

Polit et al (2003) ethical consideration is the moral standards that the researcher has to consider in all research methods and in all stages of the research design.

The researcher respected the dignity of the respondents and treated the information given with uttermost confidentiality and for the research purpose only.

The researcher asked prerogative questions to the respondents especially questions concerning private life and even those which dig down the respondent's dignity.

Participants in a study were protected from an adverse situation. They were assured that information that is provided to the researcher and their participation could not affect them.

Permission were sought from the respondents before approaching their home, offices and working permission and at their convenient times only.

## CHAPTER FOUR

### DATA PRESENTATION, INTERPRETATION AND DISCUSSION OF THE FINDINGS

#### 4.0 Introduction

This chapter presents the findings on credit analysis and financial performance of commercial banks. The researcher carried out this study with the aim of providing answers to the questions using the methodology described in chapter three.

#### 4.1 Findings on the general information about respondents.

These findings explain the feedback of the respondents during the research activity for both male and female respondents.

##### 4.1.0 Response rate.

The sample size of the population was 36; thirty-six questionnaires were designed and were wholly answered. This implies that the response rate was outstanding.

##### 4.2.1 Gender of Respondents

**Table 2: Showing the Gender of respondents**

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	22	61.0	61.0	61.0
Valid Females	14	39.0	39.0	100.0
Total	36	100.0	100.0	

Source: primary data (2024)

With reference to table 2 above, it can be seen that male consisted of 61%, and 39% were females. This implies that there were more males involved in the study since they were the majority taking up various positions at post bank Mbale branch.

#### 4.2.2 Age

**Table 3: Showing Age group of respondents**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 21-30 years	12	33.0	33.0	33.0
31-40 years	15	42.0	42.0	75.0
41-50 years	8	22.0	22.0	97.0
Above 60 years	1	3.0	3.0	100.0
Total	36	100.0	100.0	

**Source: Primary data (2024)**

The table 4 above shows that 33% lie between the ages of 20-30 years, 42% make it to the age of 31-40 years, 22% lie between the age of 41-50 years, and above the age of 60 years constituted 3%. This indicates that the majority of respondents were mature and knowledgeable enough to give the required information.

#### 4.2.3 Qualification of respondents

**Table 4: Showing academic qualification of respondents**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Secondary	8	22.0	22.0	22.0
Certificate	5	14.0	14.0	36.0
Diploma	7	19.0	19.0	55.0
Degree	14	39.0	39.0	94.0
Masters	2	6.0	6.0	100.0
Total	36	100.0	100.0	

**Source: primary data (2024)**

Table 4 above shows that 22%, 14%, 19%, 39% and 6% correspond to secondary, certificate, diploma, degree, and masters respectively. This indicates that all people employed by post bank Mbale branch have attained certain level of education and knowledge with the majority corresponding to degree at 39%

#### 4.2.4 Years of working

**Table 5: Showing years of working by respondents**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than 1 year	9	25.0	25.0	25.0
1-2 years	11	31.0	31.0	56.0
Above 3 years	16	44.0	44.0	100.0
Total	36	100.0	100.0	

**Source: Primary data (2024)**

Table 5 above intimates that 25%, 31%, and 44%, correspond to less than 1 year, 1-2 years, and above 3 years respectively, this however implies that post bank Mbale branch employs experienced workers who have had reasonable numbers of years of experience with 44% such that the goals formulated by the entity can be achieved well.

**4.3.0 Research question one: Finding out on effect of management competence on financial performance of Post Bank Mbale branch**

**Table 6: Showing findings on effect of management competence on financial performance of Post Bank Mbale branch**

STATEMENT	SA		A		NS		SD		D		Mean	Std. Deviation
	f	%	f	%	f	%	f	%	f	%		
You set clear goals and expectations for your team	16	44	8	22	6	17	4	6	2	6	7.2	4.83
You enhance employee morale and performance by providing regular feedback and recognition for their achievements.	15	42	13	36	5	14	2	3	1	3	7.2	5.74
You promote a culture of open communication and collaboration, fostering a positive work environment that encourages creativity and innovation.	9	25	7	19	8	22	9	14	3	8	7.2	2.23
You ensure that your team has the necessary resources and training to succeed, supporting their professional development and growth.	15	42	3	8	6	17	2	3	10	28	7.2	4.79
You also lead by example, demonstrating strong leadership skills and a commitment to ethical and responsible decision-making.	7	19	11	31	6	17	9	14	3	8	7.2	2.71

*Source: Primary data, 2024*

Findings from Table 6 indicate that 44% of respondents strongly agreed and 22% agreed with the statement that team managers set clear goals and expectations for their teams. However, 17% were unsure, 6% disagreed, and 6% strongly disagreed. The mean score for this perception was 7.2, with a standard deviation of 4.83, highlighting a general agreement but considerable variability in responses. This suggests that while a majority of respondents perceived management as competent in establishing clear objectives, there was notable uncertainty and disagreement among some employees. To further illustrate this, one of the loan officers interviewed stated that,

*".....Our manager is always clear about what we need to achieve each quarter, but sometimes, the lack of follow-up creates confusion on how to prioritize tasks."*

This response reflects that while goals were communicated, there were gaps in ongoing guidance, affecting overall team performance.

The table indicates that a significant portion of respondents (42% strongly agreed and 36% agreed) believed that management at Post Bank Mbale branch effectively enhanced employee morale and performance by providing regular feedback and recognition for their achievements. Despite this, 14% of respondents were unsure, while a small minority (3% disagreed and 3% strongly disagreed) did not share this view. The mean score for this perception was 7.2, with a standard deviation of 5.74, reflecting general agreement but substantial variability in responses. This suggests that while most employees perceived management as effective in boosting morale and performance through feedback and recognition, there was some uncertainty and dissent among a few employees. During an interview, the Human Resource Manager commented,

*".....We strive to acknowledge our employees' hard work through regular feedback sessions and monthly recognition programs, which we believe are crucial for maintaining high morale."*

This response shows the management's commitment to recognizing employee contributions, which was likely contributing to the positive perception of management competence within the branch.

The table also indicates that 25% of respondents strongly agreed and 19% agreed that management at Post Bank Mbale branch promoted a culture of open communication and collaboration, fostering a positive work environment that encourages creativity and innovation. However, 22% were unsure, 8% disagreed, and 14% strongly disagreed with this

statement. The mean score was 7.2, with a standard deviation of 2.23, reflecting moderate agreement but notable variability in responses. These findings suggest that while a portion of employees recognized efforts to create a collaborative and innovative work environment, there was significant uncertainty and dissatisfaction regarding the effectiveness of these efforts. One of the sales officers remarked during an interview,

*".....There are attempts to encourage open communication, but sometimes, ideas from the lower levels don't seem to reach the top. This creates a gap in fostering true collaboration."*

This response reveals that while management was perceived to be promoting collaboration, there were challenges in fully realizing open communication, which could impact the overall work environment.

The table revealed that 42% of respondents strongly agreed and 8% agreed that management at Post Bank Mbale branch provided their teams with the necessary resources and training to succeed, thereby supporting professional development and growth. The mean score was 7.2, with a standard deviation of 4.79, indicating a general tendency towards agreement but with considerable variability. However, 28% of respondents disagreed, 3% strongly disagreed, and 17% were unsure about this statement. These findings align with Appah E. (2017), who highlighted the crucial role of management in providing resources and training for team success and professional growth. The results suggest that while a significant portion of employees felt adequately supported, there were notable concerns and uncertainties among others. An accountant interviewed mentioned,

*".....While we receive some training, it's often not enough to keep up with the latest financial tools and practices. This sometimes leaves us feeling underprepared to handle more complex tasks."*

This response highlights a gap in the training provided, suggesting that although management was committed to supporting employee development, the resources and training offered were not always sufficient to meet the evolving needs of the team.

The table indicated that 19% of respondents strongly agreed and 31% agreed that management at Post Bank Mbale branch led by example, demonstrating strong leadership skills and a commitment to ethical and responsible decision-making. The mean score was 7.2, with a standard deviation of 2.71, suggesting a general trend towards agreement but with

noticeable variability. However, 14% of respondents disagreed, 8% strongly disagreed, and 17% were unsure about this statement. These findings align with Bhatia HL (2019), who emphasized the importance of leadership by example in fostering ethical and responsible decision-making. While a majority of employees recognized strong leadership within the branch, a significant portion expressed disagreement or uncertainty, indicating varied perceptions of leadership effectiveness. A loans officer interviewed shared,

*".....Our managers generally set a good example, especially when it comes to ethical practices, but there have been instances where their decisions were not fully explained, leaving some of us questioning the rationale."*

This response reflects that while management was seen as leading by example, there were communication gaps that affected how their decisions were perceived, particularly in terms of transparency and ethical considerations.

#### **4.3.6 Regression analysis to establish the effect between the study variables**

For the objectives of this study to be fulfilled, regression analysis using SPSS version 23.0 was undertaken in order to investigate on credit analysis and financial performance of commercial banks. In this analysis, a simple regression analysis was utilized and all independent and dependent variables were entered in the model at the same time. But for the regression analysis to give valid results, some key assumptions have to be satisfied. In this analysis, variance credit analysis (VCAF) was used to ensure that the assumption of reasonable differences of the independent variables was satisfied. These were all below the threshold of 10. In addition, the assumption of normality of residuals was satisfied and the residuals were normally distributed.

#### **4.3.7 Regression analysis for the effect of management competence on financial performance of post bank Mbale branch**

In order to address the first objective of the study, a regressive analysis was done to analyze the effect of management competence on financial performance of post bank Mbale branch.

The results from analysis are presented in the model summary and coefficients tables below.

#### **Table 7: Showing regression model summary for effect of management competence on financial performance of post bank Mbale branch**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F-statistic
1	.332 <sup>a</sup>	.110	.098	.553	5.693

*Source: Primary data (2024)*

From the Table 7 showing the model summary statistics above, An R<sup>2</sup> of 0.110 implies that management competence explains and predicts significantly 11% variations in financial performance of post bank Mbale branch and the remaining 89% is explained by other factors. Basing on such findings, the researcher therefore concludes that management competence significantly and positively affects financial performance of post bank Mbale branch.

#### **4.4. Research question two: Finding out the effect of cash flow analysis on financial performance of post bank Mbale branch**

**Table 8: Showing findings on the effect of cash flow analysis on financial performance of post bank Mbale branch**

STATEMENT	SA		A		NS		SD		D		Mean	Std. Deviation
	<i>f</i>	%	<i>f</i>	%	<i>f</i>	%	<i>f</i>	%	<i>f</i>	%		
You identify potential cash flow issues before they become major problems.	5	14	10	28	8	22	9	14	4	11	7.2	2.32
You make more informed decisions about investments and expenses	7	19	4	11	11	31	6	10	8	22	7.2	2.32
You do improve your ability to manage and allocate resources effectively	16	44	4	11	7	19	6	10	3	8	7.2	4.62
You boost your chances of financial success and stability	5	14	15	42	2	6	4	6	10	28	7.2	4.71
You efficiently manage your working capital	9	25	6	17	3	8	14	22	4	11	7.2	3.97

**Source: Primary Data 2024**

With reference to Table 8, it can be observed that 14% of respondents strongly agreed and 28% agreed that management at Post Bank Mbale branch effectively identified potential cash flow issues before they escalated into major problems. This indicates that a portion of respondents had confidence in the branch's proactive approach to cash flow management. However, 11% disagreed, 14% strongly disagreed, and 22% were unsure about this capability. The mean score of 7.2 and a standard deviation of 2.93 suggest that while a substantial number of respondents acknowledged effective cash flow management, there remains notable uncertainty or disagreement. An accountant interviewed noted,

*"...Although we have guidelines for making investment decisions, there are times when it feels like decisions are made quickly without thorough analysis, which sometimes leads to questionable outcomes."*

This response suggests that while there were processes in place, there were gaps in ensuring that all decisions were as informed as they could be, impacting the overall perception of decision-making effectiveness.

With reference to the table, it can be observed that 19% of respondents strongly agreed and 11% agreed that management at Post Bank Mbale branch made more informed decisions about investments and expenses. Conversely, 22% disagreed, 10% strongly disagreed, and 31% were unsure about this statement. The mean score of 7.2 and a standard deviation of 2.32 reflect a general perception that while some respondents felt confident in the decision-making processes, there was a significant level of uncertainty and disagreement. These findings align with Kendrick MS (2015), who emphasized the importance of making well-informed decisions regarding investments and expenses. This suggests that although some respondents recognized efforts in informed decision-making, a considerable number either disagreed or were unsure, indicating variability in perceptions about the effectiveness of these decisions.

The table indicated that 44% of respondents strongly agreed and 11% agreed that management at Post Bank Mbale Branch improved their ability to manage and allocate resources effectively. However, 10% disagreed, 8% strongly disagreed, and 19% were unsure about this statement. The mean score of 7.2 with a standard deviation of 4.62 reflects that while a majority perceived improvements in resource management and allocation, there was

considerable disagreement and uncertainty among others. An account manager interviewed commented,

*"....We have seen some improvements in resource management, but there are still instances where resource allocation seems inefficient, which impacts our overall effectiveness."*

This response highlights that although progress had been made, there were ongoing challenges in optimizing resource management, affecting the overall perception of effectiveness.

With reference to the table above, it was observed that 14% of respondents strongly agreed and 42% agreed that management at Post Bank Mbale branch boosted their chances of financial success and stability. However, 11% disagreed, 27% strongly disagreed, and 6% were unsure about this statement. The mean score of 7.2 and a standard deviation of 4.71 indicate that while many respondents felt management positively impacted financial success and stability, there was considerable disagreement and uncertainty, suggesting room for improvement. An auditor interviewed remarked,

*"....While there are efforts to promote financial stability, there are times when decisions made at the management level seem to lack alignment with our long-term financial goals, which affects our overall stability."*

This response suggests that although some respondents perceive management as supportive of financial success, there are concerns about the alignment and effectiveness of management strategies in achieving long-term financial stability.

The table also showed that 25% of respondents strongly agreed and 17% agreed that management at Post Bank Mbale branch efficiently managed their working capital. However, 11% disagreed, 22% strongly disagreed, and 8% were unsure about this statement. With a mean of 7.2 and a standard deviation of 3.97, these findings suggest a considerable range of opinions on the effectiveness of working capital management, indicating both recognition of efficiency and significant concerns or uncertainties. These findings contrast with Mckerchar and Evans (2018), who acknowledged effective working capital management as generally practiced. The discrepancy implies that while some respondents believe in the efficient management of working capital, there is notable disagreement and uncertainty, indicating potential challenges in this area. A loans officer interviewed noted,

*".....Although there are systems in place for managing working capital, there are times when we face liquidity issues that suggest we might not be managing it as efficiently as we should."*

This response revealed that despite the perception of efficiency by some respondents, there are practical challenges and concerns that may contribute to the disagreement and uncertainty regarding working capital management.

#### **4.4.6 Regression Analysis for the effect of cash flow analysis on financial performance of post bank Mbale branch.**

For analysis of the effect of cash flow analysis on financial performance of post bank Mbale branch, the independent variable was conceptualized in terms of cash flow analysis and for the study to achieve its one of the objectives; cash flow analysis was regressed to determine its effect on financial performance. The results from analysis are presented in the model summary and coefficients tables below.

**Table 9: Regression model summary for the effect of cash flow analysis on financial performance of post bank Mbale branch**

Model	R	R Square	Adjusted R Square	F-Statistic	Std. Error of the Estimate
1	.304 <sup>a</sup>	.092	.075	9.421	.464

a. Predictors: (Constant), cash flow analysis

From the Table 9 showing the model summary statistics above,  $R^2$  of 0.092 implies that cash flow analysis explains and predicts significantly 9.2% variations in financial performance and the remaining 90.8% explained by other factors. Basing on such findings, the researcher therefore concludes that cash flow analysis significantly affects financial performance of post bank Mbale branch.

**4.5 Research question three: Finding out the effect of credit risk analysis on financial performance of Post Bank Mbale branch**

**Table 10: Showing findings on the effect of credit risk analysis on financial performance of Post Bank Mbale branch**

STATEMENT	SA		A		NS		SD		D		Mean	Std. Deviation
	<i>f</i>	%	<i>f</i>	%	<i>f</i>	%	<i>f</i>	%	<i>f</i>	%		
You assess potential default risk and determine creditworthiness of borrowers	4	11	6	17	7	19	9	14	10	28	7.2	2.14
You mitigate potential losses and make informed lending decisions.	5	14	17	47	2	6	5	8	7	19	7.2	5.15
You identify high-risk borrowers and take appropriate precautions	5	14	12	33	6	17	9	14	4	11	7.2	2.93
You optimize your loan portfolio by diversifying credit risks	8	22	13	36	4	11	8	13	3	8	7.2	3.54
You evaluate the effectiveness of your risk management strategies.	13	36	9	25	2	6	5	8	7	19	7.2	3.71

**Source: Primary Data 2024**

With reference to Table 10 above, it was observed that a minority of respondents (11% strongly agreed and 17% agreed) felt that management at Post Bank Mbale branch effectively assessed potential default risks and determined the creditworthiness of borrowers. In contrast, 28% disagreed, 14% strongly disagreed, and 19% were unsure about this statement. The mean score for this perception was 7.2 with a standard deviation of 2.14, indicating a moderate agreement with significant variability in responses. This suggests that while some respondents believed in the branch's ability to manage credit risk effectively, there was substantial disagreement and uncertainty, highlighting areas for potential improvement in credit risk assessment processes. An auditor interviewed remarked,

*".....Although we have procedures in place for evaluating credit risk, there are times when default risks are not adequately addressed, leading to potential financial issues. More rigorous assessments could help in improving our credit management."*

This response shows that while some respondents acknowledge efforts in credit risk assessment, there were concerns about the effectiveness and thoroughness of these processes, affecting the overall perception of credit risk management.

With reference to the table, it was observed that a majority of respondents (14% strongly agreed and 47% agreed) felt that management at Post Bank Mbale branch effectively mitigated potential losses and made informed lending decisions. In contrast, 19% disagreed, 8% strongly disagreed, and 6% were unsure about this statement. The mean score for this perception was 7.2 with a standard deviation of 5.15, indicating a general agreement with considerable variability in responses. This suggests that while a substantial portion of respondents recognized effective risk mitigation and informed lending practices, there was a notable level of disagreement and uncertainty. A human resource manager interviewed commented,

*"....Management generally makes well-informed lending decisions, but there are occasional instances where potential risks seem to be underestimated, which sometimes results in unexpected losses."*

This response highlights that while management is perceived to effectively manage risks and make informed decisions, there may be occasional lapses or areas where improvements could further enhance risk mitigation and lending practices.

The table also showed that 14% of respondents strongly agreed and 33% agreed that management at Post Bank Mbale branch effectively identified high-risk borrowers and took appropriate precautions. In contrast, 11% disagreed, 14% strongly disagreed, and 17% were unsure about this statement. The mean score for this perception was 7.2, with a standard deviation of 2.93, indicating a general agreement with considerable variability in responses. These findings contradict Berhan and Jenkins (2015), who emphasized the importance of effectively identifying high-risk borrowers and implementing precautionary measures for sound credit management. This discrepancy suggests that while some respondents acknowledged efforts to manage high-risk borrowers, there were significant concerns and uncertainties regarding the effectiveness of these measures. A sales officer interviewed remarked,

*"....While we have some procedures to identify high-risk borrowers, there are times when it feels like these measures aren't always rigorously applied, leading to potential risks being overlooked."*

This response indicates that despite the presence of procedures, there were inconsistencies or gaps in their application, affecting the overall effectiveness of managing high-risk borrowers.

The table also indicated that the majority of respondents (22% strongly agreed and 36% agreed) felt that management at Post Bank Mbale branch effectively optimized their loan portfolio by diversifying credit risks. Conversely, 8% disagreed, 13% strongly disagreed, and 11% were unsure about this statement. The mean score for this perception was 7.2, with a standard deviation of 3.54, reflecting a general agreement but significant variability in responses. This suggests that while a substantial portion of respondents recognized efforts to diversify credit risks and optimize the loan portfolio, notable levels of disagreement and uncertainty remained. A loans officer interviewed commented,

*".....Diversifying our loan portfolio has been a key strategy, but there are times when it seems that certain risks aren't fully addressed, which can impact the overall effectiveness of our risk management."*

This response highlights that while the branch was perceived to engage in diversification, there were areas where risk management practices could be further refined to enhance the optimization of the loan portfolio.

The table also showed that the majority of respondents (36% strongly agreed and 25% agreed) believed that management at Post Bank Mbale branch effectively evaluated the effectiveness of their risk management strategies. In contrast, 19% disagreed, 8% strongly disagreed, and 6% were unsure about this statement. The mean score for this perception was 7.2, with a standard deviation of 3.71, indicating general agreement with considerable variability in responses. These findings align with Bird and Jamtsher (2016), who emphasized the importance of evaluating risk management strategies to ensure their effectiveness. This suggests that while a significant portion of respondents recognized efforts to evaluate risk management strategies, there was still a notable level of disagreement and uncertainty. A general manager interviewed remarked,

*"....We have regular assessments of our risk management strategies, but sometimes the feedback and implementation of improvements could be more timely and comprehensive."*

This response indicates that while there was a recognized effort to evaluate risk management, there were opportunities for enhancing the process and addressing feedback more effectively to improve overall risk management practices.

#### **4.5.6 Regression Analysis for the effect of credit risk analysis on financial performance of post bank Mbale branch.**

In order to analyze the effect of credit risk analysis on financial performance of post bank Mbale branch, the independent variable was conceptualized in terms of credit risk analysis and for the study to achieve its objectives; regression analysis to assess its effect on financial performance was performed using SPSS. The results from analysis were presented in the model summary and coefficients tables below.

**Table 11: Showing regression model summary for the effect of credit risk analysis on financial performance of post bank Mbale branch**

Model	R	R Square	Adjusted R Square	F-Statistic	Std. Error of the Estimate
1	.194 <sup>a</sup>	.037	.024	8.642	.588

a. Predictors: (Constant), credit risk analysis

**Source: primary data, (2024)**

From the Table 11 showing the model summary statistics above,  $R^2$  of 0.037 implies that credit risk analysis explains 3.7% variations in financial performance of post bank Mbale branch. Basing on such findings, the researcher therefore concludes that credit risk analysis positively affects financial performance of post bank Mbale branch.

## CHAPTER FIVE

### SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction.

In this chapter the researcher gives a summary of findings, conclusions and recommendation in line with the research questions and objectives.

#### 5.1 Summary of findings.

The researcher provided a summary of findings in line with the objectives as follows;

##### 5.1.1 Research Question one: Findings on the effect of management competence on financial performance of post bank Mbale branch

The study investigated into the effect of management competence on financial performance of post bank Mbale branch. Results showed that most respondents were positive to the statements that they were asked. For example; majority of respondents constituting 44% strongly agreed, 22% agreed to the statement that respondents set clear goals and expectations for your team; 25% strongly agreed, 19% agreed to the statement that respondents promote a culture of open communication and collaboration, fostering a positive work environment that encourages creativity and innovation; 42% strongly agreed, 8% agreed to the statement that respondents ensure that your team has the necessary resources and training to succeed, supporting their professional development and growth, 19% strongly agreed, 31% agreed to the statement that respondents also lead by example, demonstrating strong leadership skills and a commitment to ethical and responsible decision-making.

On the other hand, 25% disagreed, 36% strongly disagreed constituting the majority were negative to statement that enhance employee morale and performance by providing regular feedback and recognition for their achievements.

Results according to inferential statistics showed that management competence has a significant effect on financial performance of post bank Mbale branch by 11%.

### **5.1.2 Research Question two: Findings on the effect of cash flow analysis on financial performance of post bank Mbale branch.**

The study investigated into the effect of cash flow analysis on financial performance of post bank Mbale branch. Majority of the respondents 14% strongly agreed, 28% agreed to the statement that respondents identify potential cash flow issues before they become major problems, 44% strongly agreed, 11% agreed to the statement that respondents do improve your ability to manage and allocate resources effectively, it can be observed that 14% strongly agreed, 42 agreed to the statement that respondents boost your chances of financial success and stability officials also determine the amount of tax while 39% disagreed, 11% strongly disagreed to the statement that respondents efficiently manage their working capital, and also 17% disagreed, 22% strongly disagreed to the statement that respondents make more informed decisions about investments and expenses. Results according to inferential statistics showed that cash flow analysis affects financial performance of post bank Mbale branch by 9.2%.

### **5.1.3 Research Question three: Findings on the effect of credit risk analysis on financial performance of post bank Mbale branch**

The findings revealed that 14% strongly agreed, 47% agreed to the statement that respondents mitigate potential losses and make informed lending decisions, 14% strongly agreed, 33% agreed to the statement that respondents identify high-risk borrowers and take appropriate precautions, 22% strongly agreed, 37% agreed to the statement that respondents optimize your loan portfolio by diversifying credit risks, and 36% strongly agreed, 25% agreed to the statement that respondents evaluate the effectiveness of your risk management strategies.

On the other hand, 25% disagreed, 28% strongly disagreed to the statement that respondents assess potential default risk and determine creditworthiness of borrowers.

Results according to probable statistics showed that credit risk analysis affects financial performance of post bank Mbale branch by 3.7%.

## 5.2 Conclusion

Basing on the first research objective which was to find out the effect of management competence on financial performance of post bank Mbale branch, it can be concluded that management competence has a significant effect on financial performance of post bank Mbale branch by 9.8% and this can be enhanced by encouraging managers to attend relevant training programs, workshops, and seminars to gain a better understanding of financial management concepts and techniques. This would help them stay updated with the latest practices and trends. Conduct periodic financial performance reviews where managers can analyze and assess their department's financial results. This would provide them with insights into the areas of improvement and help identify strategies to enhance financial performance.

Basing on the second research question which was to analyze the effect of cash flow analysis on financial performance of post bank Mbale branch, it can be concluded that cash flow analysis affects financial performance of post bank Mbale branch by 7.5% and can be enhanced by implementing effective credit policies and procedures to ensure timely collection of accounts receivable. This could include offering discounts for early payments, establishing clear payment terms, and monitoring overdue payments closely. Negotiate favorable payment terms with suppliers and vendors, and take advantage of any available discounts for early or bulk payments. Also, evaluate and prioritize payables to ensure that essential expenses are paid on time while minimizing unnecessary expenditures. Analyze and review expenses regularly to identify areas where costs can be reduced without negatively impacting business operations. This may involve negotiating better deals with suppliers, finding more cost-effective alternatives, or eliminating unnecessary expenses.

Basing on the third research objective, it can be concluded that credit risk analysis affects financial performance of post bank Mbale branch and is enhanced by employing advanced analytics techniques such as machine learning, artificial intelligence, and data mining can provide a deeper understanding of credit risk. These tools can uncover patterns, predict default probabilities, and identify potential risks that may not be apparent through traditional analysis. Conduct an in-depth analysis of the borrower's financial statements, credit reports, and past credit behavior. Evaluate factors such as stability of income, debt-to-income ratio, and credit utilization to assess their ability and willingness to repay the debt.

### **5.3 Recommendations**

Managers should be encouraged to attend relevant training programs, workshops, and seminars to gain a better understanding of financial management concepts and techniques. This would help them stay updated with the latest practices and trends. Conduct periodic financial performance reviews where managers can analyze and assess their department's financial results. This would provide them with insights into the areas of improvement and help identify strategies to enhance financial performance. Provide managers with access to financial management tools, software, and resources that would assist them in analyzing and monitoring financial performance. This could include budgeting and forecasting tools, financial dashboards, and financial performance benchmarking reports.

There is need for the bank to implement effective credit policies and procedures to ensure timely collection of accounts receivable. This could include offering discounts for early payments, establishing clear payment terms, and monitoring overdue payments closely. Negotiate favorable payment terms with suppliers and vendors, and take advantage of any available discounts for early or bulk payments. Also, evaluate and prioritize payables to ensure that essential expenses are paid on time while minimizing unnecessary expenditures. Analyze and review expenses regularly to identify areas where costs can be reduced without negatively impacting business operations. This may involve negotiating better deals with suppliers, finding more cost-effective alternatives, or eliminating unnecessary expenses.

Post bank Mbale branch should employing advanced analytics techniques such as machine learning, artificial intelligence, and data mining can provide a deeper understanding of credit risk. These tools can uncover patterns, predict default probabilities, and identify potential risks that may not be apparent through traditional analysis, Conduct an in-depth analysis of the borrower's financial statements, credit reports, and past credit behavior. Evaluate factors such as stability of income, debt-to-income ratio, and credit utilization to assess their ability and willingness to repay the debt. Additionally, consider macroeconomic factors that could impact credit risk, such as industry trends and regulatory changes.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

Dear respondent;

I am Saawa Joseph carrying out research on the topic “credit analysis and financial performance of commercial banks” as a partial fulfillment for the award of bachelors degree of business administration at Uganda Christian University. The questionnaire is designed to help me collect relevant information and therefore I kindly request you to participate in responding to the questions that will be asked. However the information given will be treated confidential and will only be used for academic purpose.

#### SECTION 1: DEMOGRAPHIC DATA

(Tick in the box provided)

1. Gender distribution of the respondent

a) Male                       b) Female

2. Age bracket of the respondent (years)

a) 20-30                       b) 31-40                       c) 41-50                       d) 60 and above

3. Academic qualification of respondent

a) Secondary                       b) Certificate                       c) Diploma                       d) Bachelors'                       e) Masters

4. Years of working by the respondents.

a) Less than 1 year                       b) 1-2 years                       c) 3 years and above

### Section A: Management competence

This section aims at examine the effect of management competence on financial performance of post bank Mbale branch. Please indicate your opinion on the following statements using the Linkert scale. Key: 1= Agree; 2= strongly Agree; 3= not sure; 4= Disagree; 5= strongly disagree.

No	Statements	1	2	3	4	5
1	You set clear goals and expectations for your team					
2	You enhance employee morale and performance by providing regular feedback and recognition for their achievements.					
3	You promote a culture of open communication and collaboration, fostering a positive work environment that encourages creativity and innovation.					
4	You ensure that your team has the necessary resources and training to succeed, supporting their professional development and growth.					
5	You also lead by example, demonstrating strong leadership skills and a commitment to ethical and responsible decision-making.					

### Section B: Cash flow analysis

This section aims at analyzing the effect of cash flow analysis on financial performance of post bank Mbale branch. Please indicate your opinion on the following statements using the Linkert scale. Key: 1= Agree; 2= strongly Agree; 3= not sure; 4= Disagree; 5= strongly disagree.

No	Statements	1	2	3	4	5
1	You identify potential cash flow issues before they become major problems.					
2	You make more informed decisions about investments and expenses					
3	You do improve your ability to manage and allocate					

	resources effectively					
4	You boost your chances of financial success and stability					
5	You efficiently manage your working capital					

### Section C: Credit risk analysis

This section aims assessing the effect of credit risk analysis on financial performance of post bank Mbale branch. Please indicate your opinion on the following statements using the Linkert scale. Key: 1= Agree; 2= strongly Agree; 3= not sure; 4= Disagree; 5= strongly disagree.

No	Statements	1	2	3	4	5
1	You assess potential default risk and determine creditworthiness of borrowers					
2	You mitigate potential losses and make informed lending decisions.					
3	You identify high-risk borrowers and take appropriate precautions					
4	You optimize your loan portfolio by diversifying credit risks					
5	You evaluate the effectiveness of your risk management strategies.					

### Section D: Financial performance

This section shows indicators for financial performance of commercial banks. Please indicate your opinion on the following statements using the Linkert scale. Key: **1= Agree; 2= strongly Agree; 3= not sure; 4= Disagree; 5= strongly disagree.**

No	Statements	1	2	3	4	5
1	Bank profits have increased.					
2	The loan to asset ratio of the bank increased.					
3	The working capital and liquidity have increased.					
4	The bank has been able to manage its risks.					
5	Customers retention and loyalty is stable					

## **APPENDIX II: INTERVIEW GUIDE**

1. Can you please share your understanding of the term "management competence" and how it relates to financial performance?
2. How would you define a competent management team, and what qualities or skills do you believe are essential for effective financial management?
3. Can you provide examples of how management competence has positively influenced financial performance in your organization?
4. Have you ever witnessed situations where a lack of management competence negatively impacted the financial performance of a company? Could you share that experience?
5. In your opinion, what are some key indicators or metrics that can be used to measure the effect of management competence on financial performance?
6. How does cash flow analysis contribute to assessing and improving financial performance?
7. Could you describe some specific methods or techniques you use to analyze cash flow and understand its impact on financial performance?
8. Can you provide any examples of how cash flow analysis has helped in making strategic financial decisions or identifying potential risks?
9. Have you ever encountered situations where cash flow analysis was neglected, leading to adverse financial performance? Can you explain that scenario?
10. What role does cash flow forecasting play in enhancing financial performance, and how do you incorporate it into your financial planning and decision-making process?
11. Can you explain the importance of credit risk analysis in assessing and influencing financial performance?
12. What methods or tools do you use to evaluate and manage credit risk? Can you provide some examples?
13. How does credit risk analysis contribute to making informed decisions regarding loans, investments, or credit extensions?
14. Have you ever observed instances where inadequate credit risk analysis resulted in poor financial performance or significant losses? Could you elaborate on that?
15. How do you incorporate credit risk analysis findings into financial planning and operational strategies to ensure improved financial performance over time?



# UGANDA CHRISTIAN UNIVERSITY, MBALE UNIVERSITY COLLEGE.

A Centre of Excellence in the Heart of Africa

## BUSINESS DEPARTMENT

To MANAGER, POST BANK - MBALE BRANCH  
  
*my friend*

Dear Sir/Madam,

Re: Academic Research

Christian greetings!

We are honored to introduce to you Mr. Mrs./Miss SAANA JOSEPH  
Of Registration Number; S22/MUC/BBA/033 pursuing a Masters' Degree/Postgraduate Diploma / Bachelor's Degree  
BACHELOR'S DEGREE

He/ she is required to carry out an academic research on the topic  
CREDIT ANALYSIS AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS CASE STUDY OF POST BANK MBALE BRANCH.

and thereafter produce a well bound hard cover research report (MAROON) in color for undergraduate and three (BLACK) copies for Postgraduate students as a University requirement for the award of a degree/diploma in the academic discipline that he / she is pursuing.

We shall be grateful for the help you may offer to him or her accordingly.  
Thank you.  
Yours faithfully,

  
HEAD OF DEPARTMENT BUSINESS UCU-MUC  
Henry Omache Ogachi

