

**CREDIT RISK ASSESSMENT AND FINANCIAL PERFORMANCE OF
COMMERCIAL BANKS IN UGANDA :A CASE OF CENTENARY BANK,
MUKONO BRANCH**

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S21B33/038

**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT
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IN ACCOUNTING AND FINANCE OF UGANDA CHRISTIAN UNIVERSITY**

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**UGANDA CHRISTIAN
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DECLARATION

As per university values of integrity and diligence, I have not received any unauthorized assistance while working on this research. I declare that the work is authentically mine and to the best of my knowledge, it contains no traces of plagiarism or other unethical traces and practices. The work only used that has been published by other persons has been for reference purposes only.

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S21B33/038

Date..Friday, 6th September, 2023.....

APPROVAL

This paper has been prepared and submitted for examination under my approval.

A rectangular box containing a handwritten signature in black ink. The signature is stylized, starting with a large, looped 'G' followed by 'Kasozi' and several horizontal strokes.

Signature: *Kasozi Geoffrey*

Mr. KASOZI GEOFFREY

Date: *6th September, 2024*

University Supervisor.

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May God bless you abundantly.

DEDICATION

I dedicate this research report to my late grand mother Mrs. Kigozi Janet Peninah Ethel Namuyiga who had always been dear to me. She had always supported me through my academic life.

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LIST OF ACRONYMS AND ABBREVIATIONS

BOU	:	Bank of Uganda
SD	:	Standard deviation
ROA	:	Return on Assets
ROE	:	Return on Equity
NPL	:	Non-performing Loans
CBs	:	Commercial Banks
CAR	:	Capital Adequacy Ratio
CRB	:	Credit Reference Bureau
BoU	:	Bank of Uganda
CDS	:	Credit Default Swaps
FIs	:	Financial Institutions
UCRB	:	Uganda Credit Reference Bureau
IFRS	:	International Financial Reporting Standard

ABSTRACT

The study investigated the impact of credit risk assessment on the financial performance of Centenary Bank. Specifically, the study assessed the level of credit risk identification, assessment and control. Using a descriptive cross-sectional design and a mixed-methods approach, data was collected from 54 (fifty-four) respondents using questionnaires and interviews. The analysis showed that the level of credit risk management practices was positively related to financial performance, underlining how particularly significant the identification, assessment, and control of credit risk are in driving financial performance. The findings suggest that an active and all-rounded credit risk management approach, such as continuous risk monitoring, classification, and mitigation, has great potential to improve financial performance. For financial institutions to achieve superior financial performance, the study recommends that financial institutions therefore make the management of credit risk a priority through investment in training and resource allocation, adoption of best industry practices on estimation and mitigation. This is how, by minimizing the level of credit risk, one can maximize revenue and be able to compete in markets. Therefore, strong evidence from the study showed that credit risk has high positive impacts of Centenary Bank effective identification, measurement, and control of credit risk are part of comprehensive credit risk management, which promises optimal financial performance, revenue generation, and competitiveness. The findings and recommendations from the study provide useful lessons for financial institutions in credit risk management.

In putting in place credit risk management procedures and ensuring the implementation of best practices within the financial industry, it would be possible for financial institutions to limit their risks while actualizing their returns and preserving their financial integrity within a constantly changing, highly complex, and fully competitive financial environment.

CHAPTER ONE

1.0 Introduction

This chapter presents the background of the study, statement of the problem, objectives of the study, research questions, scope of the study and significance of the study. It also offers the conceptualization and contextualization for the research. This study was set to examine the effect of credit risks on financial performance of commercial banks, a case study of Centenary bank, Mukono branch.

1.1 Background to the Study

Credit risk is defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with the agreed terms. (Lillian Kisivuli Essendi 2022)

The main source of credit risk include, limited institutional capacity, inappropriate credit policies, volatile interest rates, poor management, inappropriate laws, low capital and liquidity levels, direct lending, massive licensing of banks, poor loan underwriting, laxity in credit assessment, poor lending practices, government interference and inadequate supervision by the central bank (Kithinji ,2021)

The study of credit risk and financial performance is firmly anchored in financial theory and practice with roots in groundbreaking studies that established the framework for comprehending and controlling credit risk. The Merton Model (1974), first presented by Robert C. Merton, is a seminal model that frames a company's stock as a call option on its assets by applying option pricing principles to corporate debt. This conceptual framework had a big effect on how credit risk is assessed today. The field was further advanced in the 1990s by J.P. Morgan's Credit Metrics (1997), which integrated market and credit risks and quantified credit risk through possible changes in credit ratings. These frameworks and studies therefore highlight the multi-complex relationship of credit risk and financial performance, with emphasis on appropriate risk management for financial stability and profitability. In Uganda, credit risk and studies on financial performance have undergone significant changes in the last few decades due to regulatory reforms and maturing of the financial Sector; The banking sector, overseen by the Bank of Uganda, has continued to grapple with problems of credit risk characterized mainly by NPLs. The NPL ratio, which remains one of the indicators of credit risk, has continued to oscillate over time, reflecting how the sector has remained in sore combat against loan defaults.

As of the Bank of Uganda's Financial Stability Report. In 2022, the NPL ratio was approximately 5.4%, indicating a slight decline from previous years but still at a high level of credit risk. This decline from the peak of about 6.2% in 2018 reflects some improvement within credit risk management practices, but it remains very important to be addressed by the banking industry. The usual basis for measuring financial performance in Ugandan banks is the Return on ROA and ROE signify the net profitability or return to the owners of the assets. These ratios provide information about the profitability and operational efficiency of banks. The average ROA for Ugandan banks stood at around 2.1% in 2022, while the ROE was about 10.5%. Modest as these figures are, they reflect a stable profitability trend in the sector, amidst challenges brought about by credit risk. To be precise, international regulatory frameworks, especially those touching on Basel II and III. The new standards have gone a long way in changing the way credit risk management is done in Uganda. These standards prescription of higher capital adequacy ratios, stress testing, and enhanced risk management procedures has helped Ugandan banks absorb possible losses. In 2022, the average Capital Adequacy Ratio for Ugandan banks stood at 21.3 percent against the minimum regulatory requirement of 12 percent. Such a large buffer means that banks are bound to absorb shocks that arise from credit risk and other financial turbulences.

Empirical research, as done by Kamukama and Tumwine (2017), talks volumes about The importance of developing appropriate credit risk management as a means toward Improvement in Ugandan banks' profitability. Improvement in appraisal procedures, Monitoring processes, and recovery processes can, to a large extent, reduce the incidence of defaults that predictively enhance profitability and stability. For example, the study found that those banks with a sound credit risk management framework revealed lower NPLs ratios and higher ROA and ROE compared to those with poorer risk management, the adoption of sophisticated credit risk assessment tools, including statistical models and machine learning algorithms, is also taking root in Uganda to further support the sector's approach to credit risk management.

These changes point out that in this process, credit risk management is indeed important for Ugandan banking institutions in their pursuits of sustainable financial performance. By continuously improving credit through practices of risk management and adherence to strict regulatory requirements, banks in Uganda are able to create a very sound financial base and

contribute towards the general economy of the country. The Bank of Uganda introduced the Credit Reference Bureau (CRB) in its struggle to alleviate risks in the banking sector (Bank of Uganda, 2021) and the financial institutions and their borrowers are required to register. The above background shows that both the banks and the regulatory authorities have been working together to mitigate the credit risks that affect the commercial banks and other financial institutions. Understanding the kinds of risks that a bank is mostly exposed to and how they possibly affect its financial performance is the first step to design clear mitigation measures. Therefore, this study examined the effect of credit risks on the financial performance of commercial banks.

1.2 Problem statement

Commercial banks in Uganda are facing various challenges including non performing loans, fluctuations of interest rates, harsh economic conditions, fake security by loans applicants, turnaround time, fraud, and among others, which have negatively affected their performance for example according the central bank of Uganda report 2012/2013 report five banks including crane bank and among others reported losses during the year due to improper assessment of credit risks and this heavily led to decline in the banks performance during the year.

Despite the critical role that commercial banks play in facilitating economic growth and development in Uganda, the sector continues to face significant challenges related to credit risk assessment and management. The inability of banks to correctly estimate and manage credit risk has resulted in high NPLs levels at the expense of the financial performance by commercial banks operating in the country. The high levels of NPLs in the Ugandan banking sector have reduced profitability, lent less, and increased the risk aversion of banks, hence constraining economic growth and development. Besides, the absence of effective credit risk assessment and management practices has translated into a high incidence of bank failures in Uganda, which in turn has eroded public confidence in the banking sector. What is more, competition in the banking industry, which both emerges from the entry of new market participants and increased usage of digital technologies, has accelerated the demand for development in the sector of credit risk assessment and management for commercial banks in Uganda if they want to remain competitive and viable. While a number of works have been conducted in Uganda's context, studies up to date have indicated that commercial banks in

Uganda are still facing significant credit risk assessment and management challenges. These include ineffective sharing of credit information, limited credit scoring, and rating practices, and inadequate risk management frameworks. This study has, therefore, been designed to assess the relationship between credit risk assessment and commercial bank performance in Uganda, with a view to identifying critical determinants of credit risk and establishing effective practices for credit risk evaluation and management that can the enhancement of financial performance and sustainability of the commercial banks within the country will be greatly improved.

1.3 Objectives of the study

1.3.1 General Objective of the Study

To examine the relationship between credit risk assessment and financial performance of commercial banks in Uganda.

1.3.2 Specific Objectives of the study

- i. To find out the credit risk assessment policies/ practices used by commercial banks in Uganda.
- ii. To examine the effect of credit risk assessment on the financial performance of commercial banks.
- iii. To examine the challenges faced by commercial banks in credit risk assessment and suggest possible solutions.
- iv. To find out the relationship between credit risk assessment and financial performance of commercial banks.

Research Questions

- i. What are the credit risk assessment strategies adopted by commercial banks?
- ii. What is the effect of credit risk assessment on financial performance in centenary bank Uganda?
- iii. What are the challenges faced by commercial banks in assessing credit risk?
- iv. What is the relationship between credit risk assessment and financial performance of commercial banks?

1.5 Scope of the Study

1.5.1 Geographical Scope:

The study was conducted at Centenary bank, Mukono branch. This particular case study was chosen because it is of convenience to the researcher in terms of its type of business, the researcher's area of residence, language and availability of data for the research work.

1.5.2 Content Scope

The research studied how credit risk affects financial performance of commercial banks, a case study of Centenary bank, Mukono branch.

1.5.3 Time scope

This study took place from May to August 2024. This era was chosen since the research is mostly for academics, and a deadline of August, 2024, for submission for grading.

1.6 Significance of the Study

- i. This research will provide valuable insights into the effect of credit risk management on profitability and stability. Effective management of credit risk leads to lower Non-Performing Loan (NPL) ratios and improved financial metrics such as Return on Assets (ROA) and Return on Equity (ROE), which are essential for maintaining investor confidence and operational efficiency.
- ii. This study will offer researchers a rich empirical basis to explore the dynamics between credit risk and financial performance, contributing to the broader body of knowledge in finance and risk management.
- iii. This research will also identify best practices and potential areas for further research, thereby advancing theoretical understanding and practical applications in the field.
- iv. The study will aid in formulating strategies that enhance bank stability and contribute to the economic growth of Uganda by ensuring a resilient banking sector.

1.7 Limitations of the study

- i. As a student, I faced financial constraints in issuing, printing, and making follow ups on the questionnaires.

ii. Most respondents were not cooperative and always dodged the questionnaire especially when it came to the open-ended part of the questionnaire. Most of the respondents refused to write something where it was needed.

iii. Difficulties in accessing the relevant information especially the documented materials of the bank. This was because of the sensitivity of the kind of information sought for.

1.8 Solutions to the limitations

i. I was patient to the respondents who were uncooperative and kept trying to remind them and checking if they were done with the questionnaires.

ii. Approached my parents and they financed my research till it was done.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter will present an overview of the literature that relates to credit risk and financial performance of commercial banks. The literature was sourced from books, articles, websites, magazines among others.

2.1 The history and evolution of credit risk.

Credit risk management has evolved dramatically from simple informal judgment to very sophisticated models. Credit risk was a mere affair of personal relationship and character judgment in the 19th century, filled with intuition and experience. However, in 1841, Dun & Bradstreet initiated more formalized credit risk management giving way to a more formalized approach in creditworthiness appraisal. The Great Depression in the 1930s made people realize how important risk management was when the failure-to-pay rates shot up to 25% in the United States and led to enormous financial losses across the board. Quantitative post-World War II methods included the implementation of credit scoring systems, such as the FICO became the standard practice score, put in place in 1956 throughout the 1980s, US corporate bond default rates averaged at nearly 4%. This is one reason that credit derivative markets made great strides and now contain several products, such as the Credit Default Swap, which began trading in the mid-1990s and gave investors a tool for credit protection. More important, the systemic ripple effects of unsound credit risk and Basel III management became clear during the global financial crisis of 2007-2008. Basel III has set banks to higher capital levels that they should hold and, in turn, came up with more rigorous risk management principles. Modern credit risk is managed through advanced models utilised with big data, machine learning, and artificial intelligence in making the most precise prediction with an effective mitigating strategy. Credit risk analysis went two steps forward in 1968, when Edward Altman created the Z-score model to forecast bankruptcy by analysing several financial ratios of the company.

Credit risk management history and development in Uganda are closely linked to those of the financial sector. In the early post-independence period of the 1960s and 1970s, Uganda's banking system was at its rudimentary stage; hence, credit risk management was informal and usually crafted in consideration of personal relationships and collateral. The setting up of Bank of Uganda in 1966 marked a significant step towards a more structured financial system through the

introduction of regulatory frameworks and supervisory guidelines. After the economic liberalization policies were adopted in the early 1990s, Uganda started experiencing the role of private banks and the emphasis laid in formal credit risk management. However, due to this, the ratio of NPLs in the banking sector rose tremendously, peaking at about 40% in the early 1990s. This rise even endangered the stability of the financial system, further leading to the setup of the Uganda Credit Reference Bureau (UCRB).

It highly increased credit risk since it kept thorough credit histories on borrowers. The credit risk decreased to approximately 3.5% in 2010, as the non-performing loan ratio decreased, implying management. More so, the Credit Reference Bureau Regulations were implemented in 2005, enhancing the sharing of information between financial institution and hence lowered the rate of credit risk. Among the implementing institutions include Centenary Bank and Stanbic Bank Uganda. Management strategies by aligning the practices in Uganda with what is regarded as the best in the world. Credit risk management in Uganda today adopts sophisticated techniques that include credit scoring models, data analytics and stress testing in an effort towards accurate prediction and mitigation of risks. Technological changes like the blockchain and fintech are also having an effect on credit risk management; this opens up more avenues for innovation and improvement. As the as the financial landscape continues to be dynamic, credit risk management will remain among the most difficult elements to be put in place for financial stability, demanding continuous betterment in response to new challenges and opportunities.

2.2 Effects of credit risk on the financial performance of commercial banks.

Credit risk deeply affects the financial performances of commercial banks on aspects like profitability, adequacy of capital, asset quality, cost management, and reputation in the markets. For example Demirguc-Kunt and Huizinga (1998) established from their work that credit risk considerably reduces the profitability of banks as reflected by the low ROA and ROE generated by banks with higher exposures to credit risk. Further, Berger and Bouwman, 2013 attest the fact that there is a strong positive correlation of credit risk with low profitability ratios in commercial banks.

Apart from its implications on profitability, credit risk also influences the capital adequacy of commercial banks. Most regulatory requirements, such as the Basel requirements, have made it mandatory for banks to hold adequate capital reserves that would provide a buffer against the possible losses due to credit risk. Huang and Ratnovski (2011) also showed that increased credit

risk leads to increased capital requirements, thus probably reducing a bank's capital adequacy ratios. This could, in turn, check the lending operations of a bank, and the bank may hold back from earning revenue, and this would automatically affect the performance and stability of the bank as a whole. Credit risk is another factor that also importantly influences asset quality in banks. Such evidence, proxied more suitably by NPLs, was shown by Anginer, Demircug-Kunt, and Zhu (2014) to point to the negative impact of credit risk on asset quality. With increased credit risk, the rate of loan defaults and impairments increases with a corresponding deterioration in the quality of assets. It reduces the capability of the bank to build up deposits, obtain funding, and lose investors' confidence. Credit risk management is a rather expensive activity for commercial banks. A study conducted by Calem and LaCour-Little (2004) indicates that credit analysis, monitoring, and activities related to the provision for loan losses represent vital resource consumptions in banks. Larger banks will have more costs because of the complexity in their loan portfolio and large-scale operation. Moreover, inefficient practices in risk management tend to enhance the costs, which in turn shrink the total profitability and financial performance. The third and last consequence of credit risk events may impact gravely regarding market perception and reputation for commercial banks. As identified by Ernst & Young in their 2019 Global Banking Outlook report, reputational losses due to credit risk events may have more long-lasting consequences. In this respect, high-profile loan defaults or deteriorating asset quality can be expected to erode investor confidence to such an extent that deposit outflows and loss of business relationships become widespread. Restore of trust and reputation is a very complicated process that can include pretty serious investments in marketing, branding, and customer relationship management programs.

2.3 Relationship between credit risk and financial performance of commercial banks.

Extensive studies have been conducted on the interrelated relationship of credit risk with the financial performance of commercial banks, which indicated a complex dynamic correlation. Very early research pointed out that credit risk is one of the major determinants of bank profitability. The higher the loan defaults, the lower the earnings generated by the bank (Sinkey & Greenawalt, 1991). The financial crisis in 2008 showed the importance of credit risk since the higher credit losses had a significant impact on the stability and performance of banks. Ivashina & Scharfstein, 2010 Later came the Basel III regulations focusing on higher capital requirements

for credit risk mitigation and increased resilience. BCBS, 2011. Several research studies ever since have gone ahead to depict a similar relationship between credit risk and banks' financial performance through different economic cycles and regulatory regimes. In the Ugandan case, the state of the relationship between credit risk and the financial performance of commercial banks has followed trends observed in developed markets with some regional nuances. Credit risk became one of the major socio-economic factors determining bank profitability in Uganda at a time of recent expansion in commercial banking. The defaults on loans reached a distress level that seriously retarded earnings."Kasekende & Atingi-Ego, 2003 In a post global financial crisis, there was increased credit risk as loan defaults were high and hence leading to low profitability among Ugandan banks".Mugume, 2008. So far, the Bank of Uganda has retaliated with more stringent regulatory frameworks inspired by global Basel III norms to enhance practices aimed at managing credit risk. Credit risk management continues to be efficient and forms the core of Ugandan banks' financial performances. Improvement in credit risk practices contributes to stability and profitability in the banking sector. The current relationship between credit risk and the financial performance of commercial banks in Uganda is one in which there is a continued striving for a balance between risk management and profitability. Strong management of credit risk is essential to the attainment of increased levels of financial performance in that those banks with strong risk assessment frameworks are more likely to record higher levels of profitability and stability (Namugerwa, 2020). Several improvements to regulatory requirements by the Bank of Uganda, especially with the adoption of IFRS 9 in 2018, have increasingly placed demands on accurate credit risk appraisal and provisioning. Nevertheless, the economic fluctuations, combined with borrowers' defaults, create significant exposure to risks. However, the financial performance has been better with enhanced practices in managing credit risk; yet vigilance and adaptation remain vital Baguma & Mwesigwa, 2021). The existing relationship between credit risk and the financial performance of Centenary Bank in Uganda is a representation of broader trends in the banking sector, where one finds an emphasis on stringent risk management practices and compliance with the law. In this regard, it is observed that Centenary Bank has widely employed credit risk management policies, such as stringent procedures for credit evaluation and follow-up, hence having a positive impact on its financial performance (Nakiyingi, 2021). With the adoption of the IFRS 9 standards in 2018, credit risk management at the bank became

even stronger, with enhanced loan loss provisions and increased transparency. Operating amidst various challenges like economic volatility and high default rates, the focused approach to mitigation by Centenary Bank has thus helped it maintain profitability and stability. The strong credit risk management framework in the bank contributed much to its good health, and it is apparently true that good practices in credit risks result in higher financial performance.

2.4 Credit risk assessment policies used by commercial banks in Uganda

The credit risk assessment of commercial banks in Uganda is a multivariable process; after all, the ultimate goal is avoiding those customers who might fail to pay back the loans and reduce potential losses. Consequently, through the frameworks set up by the Bank of Uganda, the banks have begun to apply both a qualitative and a quantitative approach in testing the creditworthiness of the borrowers. Other commonly used tools to determine the level of risk are the 5 Cs of credit: character, capacity, capital, collateral, and conditions. These provide an in-depth view of the borrower's financial health and their ability to repay. Besides these traditional ones, the credit scoring and risk rating systems models classify the borrowers in accordance with their risk profiles. These kinds of sophisticated approaches enable the banks to make enlightened decisions regarding the quantum of lending, credit limits, and interest rates. Also, collateral requirements, which are strict collateral requirements that ensure that the loans should be adequately covered, are under control to minimize losses. Ongoing monitoring and portfolio review are very vital in identifying and managing risks that may be emerging. This therefore means that through IFRS 9, a bank is called upon to account for expected credit losses. This helps banks take precautionary measures so they may avoid losing money and also ensure financial stability. A good example can be the holistic approach to credit risk assessment, as applied by Centenary Bank in Uganda. In full conformity with the regulatory frameworks set by the Bank of Uganda, the bank conducts qualitative and quantitative evaluations of the debtors. More functional credit scoring models and risk rating systems are therefore used to classify the borrowers and grant them appropriate credit limits. Collateral requirements are properly documented, and the requirement for loans to be adequately covered is observed with full strictness. Therefore, through the institution of such robust credit risk assessment policies, Centenary Bank ensures a staunch integrity level in their lending practice, thereby minimizing losses and securing

a long-term financial future. Therefore, it acts as a benchmark to other commercial banks in Uganda that full-scale credit risk management plays a major role in ensuring financial stability.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

In this chapter, The research design, target population, sample size, and methods used in the selection of the sample, data collection, instruments used in data collection, pretesting of instruments, validation, and reliability issues, data management and analysis of results are presented.

3.1 Research design.

This study was a quantitative design that sought to explore credit risk assessment and financial performance of commercial banks in Uganda. A structure is used in restructuring the research to show how all the major parts of the project, which include samples or groups, measures, treatments or programs, and methods of assignment, work hand in hand in trying to address the central research questions.

3.2 Study population.

The study population of the study is the staff working at centenary bank Uganda, Mukono branch across the credit, accounts and operations units of about sixty- four (64) respondents.

3.3 Sample size determination.

The researcher used a mathematical formula of Tora Yamane (1970:886-87) to determine the sample size as illustrated. Where N is the total population of respondents and "e" is the confidence level.

N

I+N (e)

64

1+64 (0.05)?

=55 respondents

Respondents per department	Number of respondents	Sample size	Sampling technique
Credit	26	20	Purposive sampling
Operations	20	18	Random sampling
Accounts	18	17	Random sampling
Total	64	55	

3.4 Sampling techniques.

The study involved the use of probability sampling techniques in the way that the study involved some form of random selection and each member in the population has equal probabilities of being chosen. Probability sampling techniques are used because they are cost effective, involve lesser degree of judgment, less time consuming and comparatively easier way of sampling than non-probability sampling techniques.

3.5 Sampling methods.

Purposive sampling.

This was used by the researcher to select people whom she thought would give her valid information necessary regarding the study and these included the credit department.

Random sampling.

Random sampling is used for the other strata of junior accountants and credit officers plus operations officers. Each element is selected randomly there by reducing bias and population selected had equal chance of being selected.

3.6 Sample size determination.

The researcher used a mathematical formula of Tora Yamane (1970:886-87) to determine the sample size as illustrated.

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

3.7 Sources of Data

Primary source

Primary Data was collected by the use of questionnaires. These were designed using Likert scale and were distributed to staff in order to get their views about the relationship between credit risk assessment and financial performance of commercial banks.

The advantages of primary data include;

- The primary data are original and relevant to the topic of the research study so the degree of accuracy is very high.
- Primary data is that it can be collected from a number of ways like interviews, telephone surveys, focus groups etc. It can be also collected across the national borders through emails and posts. It can include a large population and wide geographical coverage.
- Primary data is current and it can better give a realistic view to the researcher about the topic under consideration.
- Reliability of primary data is very high because these are collected by the concerned and reliable party

Secondary Source

This involved a scrutiny of textbooks, journals, Newspaper articles, internet, and earlier researches on the problem. The merits of secondary data include; that it is less expensive and quicker to access, provides a way to access work of the best scholars across the world, gives a frame of mind to the researcher that in which direction he/she should go for the specific research and saves time, efforts, and money and add value to the research study.

3.8 Research Procedure

The study observes all those procedures followed in research. Using the letter of introduction obtained from the dean Faculty of Business of Uganda Christian University the researcher is introduced to every respondent reached at, fully explaining the purpose of research. After getting their consent, the researcher conducted the research. The researcher also builds the confidence of the respondents by assuring them that their views are confidential and are to be used only for academic purposes.

3.9 Data collection.

A structured questionnaire was used as the primary instrument of collecting primary data in this study. The appropriateness of the questionnaires is considered in that it was more convenient to administer and collect data to enable the attainment of the objective of the study. The primary data to be collected in the study included credit risk assessment strategies adopted by Centenary Bank Uganda.

The tools used for the questionnaire were closed-ended and open-ended questions. It was divided into two sections: one contained questions on bio data, while the other sections contained questions pertaining to the specific objectives of the study. The approach of the "drop-and-pick latter" was used in administering the questionnaire and helping the researcher in assisting the respondents in case of any issues in filling the questionnaires and to ensure maximum or high response rates. Questionnaire targeted the heads of departments involved in credit risk management in centenary bank. Prior to the official roll out, the questionnaire underwent a test run to ensure effective data capture and reliability.

3.10 validity and reliability

Validity testing

Validity refers to the degree to which an instrument actually measures what it is supposed to measure. For any given test, validity exists on a continuum but never as an all-or-none phenomenon. The validity of data collection was done through a pilot test where the researcher made use of fellow students who acted as the population for this initial testing since they were easy to recruit and acted as a homogeneous group of people with many similarities in demographic terms but would still be comprised of unique individuals. The validity was done, too, with the help of an Expert-the Researcher's Supervisor-to edit the questionnaire and interview guide. The researcher forwarded the structured questionnaire and the interview guide to the supervisor who is an expert in the area covered by the research for editing and reviewing.

Reliability testing.

Reliability of a research instrument concerns the degree to which the instrument yields the same results on repeated trials. The researcher uses the test re-testing method, whereby he administered the research instruments twice to fellow students to ensure that the instruments were reliable before going to the field. Data used in this study were also from credible sources, which included the websites of Centenary Bank and Bank of Uganda, among other financial institutions.

The data available in the archives of these organizations is prepared by highly qualified experts and professionals. The copyright of such organizations is complete and they are fully responsible for the reliability of data. Therefore, the researcher trusted this data with full assurance of reliability regarding its collection, compilation, and measurements. The data used in the current research study has been provided with full references to ensure the reliability of data.

3.11 Data Analysis

Data collected from the primary sources is systematically organised in a way that it can facilitate analysis. Data analysis involved preparation of the collected data, coding, editing and cleaning of data so as to facilitate processing. The results will be presented using tables, graphs and charts for ease of understanding. This will provide ease for interpretation of findings generated and recommendations from the findings.

3.12 Ethical Consideration

An introductory letter from the University was sought before commencing with the research to avoid inconveniences and misunderstandings about the purpose. The information collected was kept highly confidential.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the study findings on credit risk management and financial performance in Centenary Bank. The first part presented response rate, this is followed by background information about the respondents, and then the descriptive and inferential presentation and analysis of the study findings in relation to the specific objectives.

4.2 Response rate

The response rate for this research was 84.3% which was high. According to Amin (2005) suggested that a high response rate also suggests more accurate survey results.

Table 1: Response rate

Number of questionnaires distributed to respondents	64
Number of questionnaires received back from respondents	54
Number of questionnaires not received back from respondents.	10

Source: Primary data

$$\text{Response rate} = \frac{\text{received questionnaires}}{\text{Total questionnaires distributed}} = \frac{54}{64} * 100 = 84.3\%$$

The response rate for this research was 84.3% which was high. Amin (2005) suggested that a high response rate also suggests more accurate survey results.

This section gives the number of people who responded to the study against those which the researcher had targeted and also the characteristics of the respondents in relation to gender, age, level of education, current occupation and term of service. This was based on the information provided in the questionnaire and interviews by the respondents.

4.3 Biographic characteristics

4.3.1 Gender of the respondent

Table 2: Gender of the respondents

Sex	Frequency	Percentage %
Male	25	46.3%
Female	29	53.7%
Total	54	100%

Source: Primary data

The table 2 above shows that 46.3% of the respondents were males compared to 53.7% counterparts who were females. The females were many compared to males.

4.3.2 Age bracket of the respondents.

Table 3: The age composition of respondents

Age bracket	Frequency	Percentage%
21 - 30	49	90.7
31 - 40	5	9.3
41 - 50	0	0
Above 50	0	0
Total	54	100

Source: primary data

Results in table 3 above, show that 90.7% of the respondents were between the age of 21- 30 years and 9.3% of the respondents were between the age of 31-41 years of age while non of the respondents were above 41 years.

4.3.3 Education level

Table4: Level of education attained by the different respondents.

Education	Level	Percentages%
Diploma and below	8	14.8
Bachelor's degree	43	79.6
Master's degree	3	5.6
PhD and above	0	0
Total	54	100

Source: primary data

The result in table 4 above, show that 14.8% of respondents had a certificate and below, 79.6% of the respondents had bachelors, 5.6% of the respondents had masters and non of them had PhD and above which means that the bank employees more people with Bachelor's degree.

4.3.4 Working experience

Table 5: Working experience of respondents

Working experience	Frequency	Percentage%
Less than 1 year	31	57.4
1 – 5 years	19	35.2
5 – 10 years	1	1.9
More than 10 years	4	7.4
Total	54	100

Source, primary data

Results in table 5, show that 57.4% of the respondents have been with the bank for a period of less than 1 year, 35.2% for a period between 1-5 years, 1.9% for a period between 5 – 10 years and 7.4% have been with the bank for more than 10 years.

4.3.5 Job title of the respondents

The job title of the respondents was observed in the study because the job title may influence the quality of data collected.

Table 6: Job title of the respondents

Title	Frequency	Percentage%
Loan officers	15	27.8
Banking managerial level	6	11.1
Bankers	24	44.4
Credit rating officers	9	16.7
Total	54	100

Source: Secondary data

Results in table 5 show that majority of 44.4% of the respondents were banking officers, 11.1% were branch managers, 27.8% were loan officers and 16.7% were credit officers.

4.4 The effect of credit risk assessment on financial performance

Table 7; Credit risk assessment

Credit risk assessment	Strongly agree %	Agree %	Neutral %	Disagree %	Strongly Disagree %	Average	SD
Our team conducts credit risk assessments regularly and consistently.	35.2	46.3	18.5	0	0	2.46	1.250
The credit risk assessment methods/policies used by Centenary Bank are effective in identifying potential risks.	35.2	53.7	11.1	0	0	2.51	1.251
I am confident in the accuracy of the credit scoring models used by Centenary Bank.	33.3	35.2	31.5	0	0	2.41	1.191

The credit risk assessment process at Centenary Bank includes thorough analysis of financial statements.	35.2	46.3	18.5	0	0	4.29	.911
Training on credit risk assessment is regularly provided and effective.	29.6	38.9	25.9	3.7	1.9	4.25	.902
The credit history of customers is accurately evaluated during the credit risk assessment process.	29.6	38.9	25.9	7.4	0	2.31	1.235
Collateral evaluation is an integral part of our credit risk assessment.	40.7	48.1	14.8	1.9	0	4.31	.815
The credit risk assessment team collaborates effectively with other departments.	35.2	48.1	14.8	1.9	0	4.20	.738
Challenges such as incomplete information and inaccurate data are effectively managed.	27.8	44.4	20.4	7.4	0	4.19	.730
Our credit risk assessment practices are aligned with regulatory requirements, contributing to financial stability.	50	25	22.5	2.5	0	3.93	.828

Source: Primary data

Table 7 above shows that the respondents both agreed and as well as disagreed with the questions on credit risk assessment in Centenary Bank. The standard deviation ranged from 1.235 to 0.902 which was relatively narrow suggesting that most means did not deviate from the

central mean by a big margin. The overall results are indicative of varying experiences of adequate credit risk assessment.

Respondents are asked on the regular and consistent credit risk assessments and 35.2% of the respondents strongly agree and 46.3% agree. This indicates a strong commitment to regular credit risk assessments, which is essential for identifying potential risks and taking proactive measures.

The effectiveness of credit risk assessment methods/policies was assessed and 35.2% of the respondents strongly agree and 53.7% agree. This suggests that the methods/policies used are effective in identifying potential risks, which is critical for minimizing credit risk exposure of Centenary bank.

The accuracy of credit scoring models showed that 33.3% of the respondents strongly agree, 35.2% agree and 31.5% neutral. While majority agree, the significant neutral portion (31.5%) indicates some uncertainty about model accuracy, which could impact credit risk assessment reliability.

The thorough analysis of financial statements presented that 35.2% of the respondents strongly agree and 46.3% agree. This indicates a broad approach to credit risk assessment, in that financial reports can be useful in reconstructing a borrower's creditworthiness at the bank. The analysis on training received in credit risk assessment, 29.6% strongly agree, 38.9% agree, 25.9% neutral, and 3.7% disagree. The consensus reached shows that 68.1% agree, 25.9% are neutral, and 3.7% disagree of the respondents.

This indicates a comprehensive approach to credit risk assessment, as financial statements provide valuable insights into a borrower's creditworthiness at the bank. While majority agree, the notable neutral portion (25.9%) and disagreement (3.7%) suggest room for improvement in training, which is essential for maintaining credit risk assessment expertise of the bank.

Centenary bank's accurate evaluation of credit history that 29.6% strongly agree, 38.9% agree, 25.9% neutral, 7.4% disagree. In other words shows that similar to training, the significant neutral portion (25.9%) and disagreement (7.4%) indicate potential areas for improvement in credit history evaluation, which is critical for assessing creditworthiness.

Since collateral evaluation is key in credit risk assessment, 40.7% strongly agree and 48.1% agree of the respondents responded as shown. This indicates that collateral evaluation is an integral part of the credit risk assessment process, providing an additional layer of security.

Further, collaboration between departments showed that 35.2% strongly agree and 48.1% agree among the respondents. This suggests effective collaboration between departments, ensuring a comprehensive approach to credit risk assessment in the bank.

Centenary bank's management of challenges faced in credit process show that 27.8% strongly agree, 44.4% agree, 20.4% neutral, 7.4% disagree. Whilst majority agree, the notable neutral portion (20.4%) and disagreement (7.4%) indicate potential areas for improvement in managing challenges, such as incomplete information and inaccurate data.

The alignment with regulatory requirements in centenary indicates 50% strongly agree, 25% agree. This indicates a strong commitment to regulatory compliance, which is essential for maintaining financial stability and minimizing reputational risk.

The major findings from the literature review are in agreement with authors such as Gakuu Macharia (2019), James Mwangi Migwi (2021), and Namuyaga (2019), who emphasize that banks need to monitor loans to ensure proper payments as a key strategy for credit monitoring. They suggest that banks should generate regular credit reports (daily, weekly, or monthly) to monitor loans and strictly monitor customer account operations to enable early corrective measures in case of default.

The overall findings suggest that Centenary Bank has a strong credit risk management practice in place, with regular assessments, effective methods/policies, and thorough analysis of financial statements. However, there are areas for improvement, including training, accurate evaluation of credit history, and management of challenges. By addressing these areas, Centenary Bank can further enhance its credit risk assessment capabilities, ensuring a more robust and reliable approach to managing credit risk.

4.5 The effect of credit assessment on financial performance

Table 8: Financial performance

Financial performance	Strongly agree %	Agree %	Neutral %	Disagree %	Strongly disagree %	Average	SD
The financial performance of Centenary Bank has improved due to effective credit risk assessment.	46.3	37	14.8	1.9	1.9	4.29	.911
Credit risk assessment has a significant impact on the profitability of Centenary Bank.	35.1	48.1	11.1	3.7	0	4.25	.902
Effective credit risk assessment contributes to the liquidity management of Centenary Bank.	40.7	42.6	16.7	0	0	4.31	.815
The asset quality of Centenary Bank is maintained through diligent credit risk assessment practices.	27.8	38.9	24.1	9.3	0	4.32	.797
Our credit risk assessment practices help in achieving better capital adequacy ratios.	20.4	53.7	18.5	7.4	0	2.22	1.190
There is a clear understanding of how credit risk affects our financial performance among the employees.	38.9	27.8	29.6	1.9	1.9	2.25	1.154
Centenary Bank's earnings quality has improved due to robust credit risk assessment procedures.	31.5	38.9	24.1	5.6	0	2.32	1.224
Our bank's financial performance metrics (e.g., ROA, ROE) show positive trends due to effective credit	37	40.7	20.4	1.9	0	2.41	1.261

risk management.							
The bank's credit risk management practices have minimized the occurrence of non-performing loans (NPLs).	35.2	38.9	24.1	1.9	0	2.24	1.165
Continuous improvement in credit risk assessment methods is prioritized to sustain financial performance.	33.3	51.9	14.8	0	0	2.31	1.235

Source: Primary data

Table 7 above shows that the respondents agreed and as well as disagreed with the questions on the financial performance in Centenary Bank. The standard deviation ranged from 0.815 to 1.251 which was relatively narrow suggesting that most means did not deviate from the central mean by a big margin. The overall results are indicative of mixed experiences of efforts to consider appropriate financial performance in the bank.

There was improved financial performance where the majority of respondents (83.3%) agree that Centenary Bank's financial performance has improved due to effective credit risk assessment. This means that the bank's efforts in credit risk assessment have had a positive impact on its overall financial health. Significant impact on profitability showing that the majority 83.2% agree that credit risk assessment has a very important impact on Centenary Bank's profitability. This is an indication that effective credit risk assessment is integrative for profitability maintenance and minimization of losses. Positive contribution to liquidity management hence most respondents 83.3% agree that good credit risk assessment contributes to liquidity management at Centenary Bank. This postulates that by nature, credit risk assessment is important for the bank's ability to meet its short-term obligations. Further maintenance of asset quality, a majority of 66.7% agree that diligent credit risk assessment practices have maintained Centenary Bank's asset quality. This means that good credit risk assessment helps in ensuring that the bank's assets remain healthy and productive.

Improved realization of better capital adequacy ratios, as evidenced by the majority of respondents who agree that credit risk assessment practices help Centenary Bank realize better

capital adequacy ratios at 74.1%.

This portends that good credit risk assessment practices enable the bank to retain sufficient capital that could be used in writing off any eventualities of loss.

Better appreciation of how credit risk affects financial performance was evidenced by a majority of responses, this means that 66.7% of the respondents agree to the fact that there is a clear understanding among employees as to how credit risk impacts the financial performances at Centenary Bank. This simply means that the staff within the bank are conversant with the need for credit risk assessment in maintaining financial stability.

Earning quality improvement shows that the majority of the respondents (70.4%) agree that good credit risk

Assessment procedures enhance the quality of Centenary Bank's earnings. In other words, good credit risk assessment has contributed to high earnings quality for the bank. Similarly,

Positive Indicators of financial performance: In this regard, the majority 77.7% agree that Centenary Bank's financial performance indicators such as ROA, ROE depict a positive upward trend as a result of effective credit risk management. This infers that credit risk assessment practices of the bank have resulted in a positive impact on its financial performance indicators.

Minimising and reducing Non-Performing Loans, the majority of respondents (74.1%) agree that Credit risk management practices at Centenary Bank minimize the occurrence of nonperforming loans. This indicates appropriate assessment of credit risk decreases the likeliness of loan defaults emphasis on Continuous Improvement where the majority agrees that continuous improvement in credit risk assessment methods is prioritized in order to sustain financial performance at 85.2%. This shows that Centenary Bank understands the need for continued enhancements of credit risk assessment if it has to remain stable financially.

Conclusion

The results show that there has been a tremendous enhancement of Centenary Bank's financial performance based on good credit risk assessment and management policies. As a result of putting in place credit risk assessment, the bank has enjoyed increased profitability, good liquidity management, asset quality maintained, capital adequacy ratio increased earnings It ensures quality, good profit margins, and depicts positive financial performance measures. Further, the bank has reduced nonperforming loans, which is good dedication to credit risk management and sustains financial stability. The findings also point out that there is a need for

continuous improvement in methods for credit risk assessment if financial performance is to be ensured. It points out that Centenary Bank is committed to the continuous refinement and enhancement of its practices of assessing credit risk.

4.6.1. Correlation results

To test the relationship between credit risk assessment and financial performance of Centenary Bank, Pearson’s correlation analysis was conducted at the 2-tailed level and the findings are as follows;

Table 9: Correlation Matrix between Credit Risk Assessment and Financial Performance Variable

Variable		1	2
1. Credit risk assessment	Pearson’s correlation	1	
	Sig (2-tailed)		
2. Financial performance	Pearson’s correlation	.810**	1
	Sig (2-tailed)	.000	

** correlation is significant at the 0.01 level (2-tailed)

Source; Primary data

Table 6 above shows Pearson’s correlation where the analysis revealed a strong positive correlation ($r = 0.810$) between credit risk assessment and financial performance of Centenary Bank, with a statistically significant p-value ($p = 0.000$) at a 99% confidence level, indicating a highly significant positive relationship between the two variables. This suggests that effective credit risk assessment, which involves careful consideration of credit-related data and classification of credit risks, has a substantial positive impact on the bank's financial performance, supporting the hypothesis that there is a positive relationship between credit risk assessment and financial performance of financial institutions in Uganda.

4.6.2. Regression results

To find out the extent to which on the credit risk assessment influenced financial performance of Centenary Bank a simple regression analysis was conducted using the ANOVA techniques of adjusted R² , standardized beta values, t-values and the significance measured at 0.05 levels.

Table 10: Regression results between on the credit risk assessment and financial performance

Model	R	R square	Adjusted R Square	t-value	F constant	Sig	Std. Error of the Estimate
1	.810	.656	.650	10.436	108.920	0.000	0.517

a. Predictors: (Constant), credit risk assessment P<0.05

Source; Primary data

The regression model in Table 11 above shows the analysis revealed a strong predictive relationship between credit risk assessment and financial performance of Centenary Bank, with an adjusted R-squared value of 0.650 indicating that credit risk assessment alone accounts for 65% of the variance in financial performance. The statistical significance of this relationship is further confirmed by the high t-value (10.436), F-value (108.920), and zero p-value (0.000), demonstrating that credit risk assessment is a highly significant predictor of financial performance. This finding supports the hypothesis that there is a positive relationship between credit risk assessment and financial performance of financial institutions in Uganda, suggesting that effective credit risk assessment is a crucial factor in determining financial success.

4.6 Suggestions and Improvements.

Table 11: Suggestions and Improvements

Suggestions and improvements	Strongly agree %	Agree %	Neutral %	Disagree %	Strongly disagree %	Average

Improvements in credit risk assessment can further enhance the financial performance of Centenary Bank.	51.9	38.9	11.1	0	0	4.51
The feedback mechanism for credit risk assessment practices is effective and encourages continuous improvement.	27.8	44.4	11.1	16.7	0	2.32

Source: Primary data

Table 8 shows suggestions and improvements as explained further

Item 1 explains the improvements in credit risk assessment where the majority of respondents (90.8%) agree that improvements in credit risk assessment can further enhance Centenary Bank's financial performance. This suggests that there is still room for growth and development in credit risk assessment practices, enhancing credit risk assessment can lead to better financial outcomes and ongoing improvements in credit risk assessment are essential for maintaining and improving financial performance. Item 2 shows the effectiveness of feedback mechanism, where majority of respondents (72.2%) agree that the feedback mechanism for credit risk assessment practices is effective and encourages continuous improvement. This indicates that the feedback mechanism is generally well-received and considered useful, it encourages ongoing refinement and enhancement of credit risk assessment practices. However, 16.7% of respondents disagree, suggesting that there may be some areas for improvement in the feedback mechanism to ensure it is effective for all stakeholders. Overall, the findings highlight the importance of ongoing improvements in credit risk assessment practices to maintain and enhance financial performance. Additionally, while the feedback mechanism is generally considered effective, there may be some areas for refinement to ensure it is effective for all stakeholders.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The last chapter summarizes the key findings on the determinants of how credit risk management affects financial performance. It interprets the findings, outlines the conclusion from those findings, and provides recommendations to financial institutions, policy makers, and other future researchers. Limitations are also acknowledged in this chapter, as are the contributions and further avenues of research.

5.1 Summary of findings

Centenary Bank: Credit monitoring and risk mitigation mechanisms effectively bear on financial performance. Additionally, great improvement on financial performance is realized when strong credit risk assessments are made using reliable data and estimation of risk. On the other hand, insufficient risk evaluation and hazardous lending threaten the bank's solvency, thus turning into negative financial consequences.

The study has also established that credit policy variables are significant in financial performance, entailing the variables concerning the standards of credits, credit terms, and collection efforts. Improving these variables will enable the bank to realize an increased level of financial performance. By and large, findings have underscored the need for good credit risk management practices, fine risk appraisal systems, and effective credit policy designs to ensure Centenary Bank stability and financial performance.

5.2 Discussion of findings

5.2.1 The effect of credit risk assessment on financial performance

The study reveals a profound impact of credit risk assessment on the financial performance of Centenary Bank emphasized credible credit risk data and strong risk estimation practices in making credit risk assessment standards; the finding that is also in agreement with what Hishigsuren and Hussein (2020) found to be critical in assessing the repayment capacity of borrowers and asset-backed lending roles played within mainstream financial intermediation. This will make it possible to identify risk concentrations reliably with the comprehensive credit risk database provided by the bank's reliable information deployment. This supports the view of Zsidisin et al. (2004) that state risk assessment is intended to be in-depth information so that the risks can be either mitigated or avoided. As discussed also by Kleindorfer and Saad, it has been discussed that inter-related risk and their associated triggering events must be taken into consideration.

The bank is doing an impressive job in credit risk evaluation, improving the bank's credit management and therefore enhances risk controls. This was justifiable as Hishigsuren and Hussein 2007 pointed out that it is obligatory to evaluate the creditworthiness of the clients

based on their capacities of repaying and taking collateral. Further, findings from Banco de Portugal 2010 regarding the implications of stringent credit standards also justifies the above study.

There should be robust risk assessment processes in a balancing act between reward and risk, according to Paul and Boden (2021). Expertise in credit management and knowledge of the customer are necessary preconditions for informed decision-making. The study shows, however, that in some cases, bank management or staff interests became stronger than the interests of the creditors, and hence they pursued risky lending strategies without appropriate assessments of risk, confirming Vaubel's moral hazard theory (2023).

Hence, in credit risk assessment systems, commercial banks have to apply reliable risk data and adequate estimation of risk if the financial system has to be stable and sustainable.

5.2.2 The effect of credit management on financial performance

The study reveals a significant impact of credit risk management on the financial performance of Centenary Bank, highlighting the importance of implementing effective credit risk mitigation factors and management practices. These findings align with Herrero (2005) and De Juan (2004), who attributed banking crises to poor lending practices and inadequate risk management.

However, the study found that Housing Centenary Bank's credit risk management practices, including credit limits, collateral, and credit review committees, were ineffective in mitigating credit risk. This supports Hugh's (2001) observation that traditional credit risk management tools have yielded mixed results.

Recent studies emphasize the need for proactive credit risk management. On one hand, Sheehan (2010) has propounded a risk-response framework based on the probability of credit losses in combination with the potential pessimistic effect. On the other hand, Crouhy et al. (2017) have presented an all-inclusive strategy for credit risk management that should include risk assessment, mitigation, and monitoring.

The study also established that the reactive Centenary Bank Credit Management Team and lack of corrective action on raised credit risks constrained the achievement of credit risk management goals through revenue losses and reduced profitability. This agrees with the works of Perrin (2018) and Summers and Wilson (2000), who stated that effective credit management prevents firm failure.

Other recent studies also point out that there is the need for aggressive credit collection policies, as witnessed by Waweru and Kalani (2009), and robust credit assessment processes, as indicated by Mester (2017). These studies also identified the need to address issues of moral hazard and adverse incentives. It includes research from Vaubel, 2023; Bhattacharya et al., 2015.

It is, therefore, imperative that Centenary Bank implements effective credit risk management practices, with adequate risk mitigation factors, timely credit risk appraisal, and effective mechanisms for monitoring, if the desired performance in financial terms is to be attained together with the requirements for solvency.

5.2.3 Credit risk policy and financial performance.

From this, the research shows that banks' financial performance and funding policy variables are closely related, given the credit standards, credit terms, and conditions and collection efforts. The result implies that switching of the regressors results in a change in financial performance. In fact, from the study, credit standards, credit terms, and conditions and collection efforts were found to have a strong positive association with financial performance in the 2013 year. It implies that an improvement in these aspects can lead to better improvement in financial performance.

The study emphasized salient features of loan collection in order to achieve sound stability, which is concurrent with the findings of Owonjori 2011. It also established that inability of the banks to collect the various advances and loans granted to their customers eroded bank stability and distress.

The findings of the study also relate to Wanja 2013, who studied the credit policy and bank performance. The nature of loan terms and conditions, loan policies, credit history, and borrower behavior are determinant factors in making banks competitive and procuring loans at a significant volume.

Other recent works also dwell on credit risk management's role in maintaining financial stability. For instance, Mester (2017) emphasizes that there is an essential need for a sound credit risk assessment process; still, Crouhy et al. (2017) emphasize an all-inclusive approach to credit risk management.

The study puts into perspective the imperative of effective funding policies of banks, comprising stringent credit standards, favorable credit terms and conditions, and efficiency in collection efforts, as concerns maintaining financial stability and performance.

5.3 Conclusions

This sub section presents the conclusions and key learning points of the study on the effect of credit risk assessment on financial performance of Centenary Bank.

5.3.1 Credit risk assessment on financial performance

These findings give firm indications of a positive significant relationship between credit risk assessment and the financial performance of financial institutions in Uganda. The hypothesis, which was stated that effective credit risk assessment will directly influence financial performance through comprehensive risk data analysis and estimation of risk, was therefore conclusively confirmed.

With strong practices in credit risk assessment, financial institutions would ensure a marked improvement in financial performance characterized by the volume of sales and profitability. Conclusions ; The conclusions reached in this study have wide ramifications in that credit risk assessment has become the cornerstone of business growth, optimization of financial performance, and stability of financial institutions in Uganda.

It is also, in this respect, findings that the financial institutions might be using credit risk assessment as a strategic tool towards understanding the different complexities of the financial landscape and reducing plausible risks while gaining appropriate benefits. Based on these lines, a proactive and data-driven approach towards credit risk assessment would allow the financial institutions to unlock newer ways towards growth, innovation, and sustainability.

5.3.2 Credit risk management on financial performance.

This therefore indicates that credit management significantly impacts the financial performance of Ugandan financial institutions, hence proving the hypothesis that there is a significant relationship between the two. The results overwhelming indicated that consistent and proper credit management was one of the major determinants of financial performance and, therefore, an essential driver of improvements in sales revenue and profitability.

In this case, frequent credit monitoring can make these financial institutions fit and enable them to detect various risks and opportunities, which is fundamental in informed decision-making, optimization of credit portfolios, and enhancement of their overall financial performance. Such a conclusion of the study, thus, has immense implications for the financial institutions in Uganda by setting credit monitoring at the center of making the financial institution grow in business, achieve financial stability, and be competitive.

Results also show that credit management can be used by financial institutions in devising a strategic means through which the intricacy of the financial landscape can be maneuvered, further risks mitigated, and new opportunities harnessed. By so doing in time and frequency, financial institutions will be capable of opening new frontiers for growth, innovation, and sustainability that will assuredly go a long way to contribute toward the development of a more robust and resilient financial sector in Uganda.

5.3.3 Credit risk policy on financial performance.

The study also reported the findings that indicate three most important factors-those that most strongly influence financial institutions' performance: credit standards, credit terms and conditions, and collection efforts. Because of this result, the management must be extremely cautious in drafting credit policies so as not to be at the crossroads of operations and profitability of the institution. Poorly designed credit policies translate into inadequate credit risk management, possibly leading to reduced profits, deterioration of asset quality, increase in loan losses, and increase in nonperforming loans. Subsequently, this may result in financial distress, which may further lead to instability and nonsustainability of the institution if the condition is not checked.

Therefore, management should look at the painstaking design, implementation, and monitoring of credit policies to achieve the pinnacle of financial performance with least risk for long-term viability. The moment management understands that the standard of credit granting, credit terms and conditions, and effective collection efforts is a key driver toward accomplishing its level best in terms of financial performance, it will be better equipped to develop and fine-tune appropriate credit policies ahead of time-one that balances risk and reward for the financial institution to emerge healthy, profitable, and resilient. With this, financial institutions will, therefore, have the ability to cut through complicated market dynamics, seize the best opportunities while they can, and keep up with business.

5.4 Recommendations of the study

This sub section shows the recommendations of study on the effects of credit risk assessment and the financial performance of financial institutions arising from the study findings and discussions as seen prior.

5.4.1 Credit risk assessment on financial performance

In this respect, the study recommends that the management of FIs should enhance the capability of their information systems to provide data accurately and on time to allow for proactive management of loans that are beginning to deteriorate. It will achieve this by benchmarking industry-leading management information systems with a view to seeking out examples of best practices, while embracing a philosophy of continuous exploration and improvement. In other words, good credit risk management practice requires profound insight into potential weaknesses that may occur and could be materialized by conducting broad risk assessments on new credit products, and collecting high-quality qualitative information to give the all-round credit risk appraisal. In using industry best practices, and responsive credit risk estimation models/techniques, the FIs will be able to spot and limit possible credits risks, fine tune the current risk estimation processes, and nurture a data-driven decision-making culture. In this way, FIs will have the guarantee that their credit risk management practices are robust,

agile, and responsive to dynamically changing market conditions to assure business growth and profitability. This will drive proper decision-making, incur the least possible losses, and realize maximum opportunities toward growth and expansion.

5.4.2 Credit risk management on financial performance.

To drive sales revenue and profitability, Centenary Bank's management must excel in individual credit monitoring and new credit approval processes. However, to achieve optimal results, the bank should prioritize enhancements in three key areas: improving the reliability and accuracy of the credit monitoring information system, ensuring timely and data-driven insights to inform credit decisions, enhancing the effectiveness of the credit recovery team, empowering them to efficiently manage and recover debts, and minimizing potential losses, ensuring prompt and consistent action by senior management in addressing credit risks, fostering a culture of proactive risk management and swift decision-making.

By addressing these areas, Centenary Bank can strengthen its credit risk management framework, optimize its credit portfolio, and achieve sustainable revenue growth and profitability. Moreover, this will enable the bank to maintain a competitive edge, build trust with customers and stakeholders, and navigate the complexities of the financial landscape with confidence.

5.4.3 Credit risk policy on financial performance.

The study advises management to exercise caution when developing credit policies, ensuring they do not inadvertently compromise profitability. These findings represent valuable insight for policymakers and government officials in formulating informed measures toward the strengthening of credit policy formulation and improvement in financial performance within microfinance institutions.

While some policies may give a mild positive influence, such as those on discounts for timely payment and credit limits, the large variability in the result reflected in standard deviations will have to be considered. Again, it points out the importance of cautious implementation of policies, monitoring, and customization for maximum benefits from the policies to be accrued towards optimization of financial performance.

By adopting a well-considered and multi-dimensional credit policy development approach, microfinance institutions are better positioned to realize a non-conflicting mega trade-off

between the twin objectives of increasing financial inclusion and maintaining financial sustainability. In turn, this would enable policy and government officials to devise a facilitative regulatory environment that fosters microfinance sector growth and stability with the purpose of realizing larger economic development and financial stability.

5.5 Limitations of study

The limitation of the research is the small number of respondents, since only a few staff in the banks are involved in credit risk management. Another limitation was reliance on primary data only; secondary data on practices of risk management and performance was not used due to apprehension in revealing information that may influence the bank's competitive strategy. Although this study possesses the aforementioned limitations, it presented insight into its findings concerning the bank's risk management practices and their impacts on financial performances, generalizable into implications for similar institutions.

To overcome the limitation, the researcher adopted an inclusive approach by not restricting the study to credit department employees alone but involved all bank employees to secure a wider range of views. Furthermore, the site visits were extended to the various branches of Centenary Bank for the purpose of improving the sample size to make the study representative. These will help the researcher ensure that, in doing so, both validity and reliability of findings are maximized to provide an accurate picture of the complex relationships between credit risk management practices and financial performance in the banking sector. This enabled the researcher to draw meaningful conclusions and make informed recommendations that have applicability in similar contexts.

5.6 Recommendations for further studies.

From the regression analysis, it could be shown that credit risk management was a strong predictor of financial performance, the explained variance accounting for 73.5%, and other variables accounted for 26.5%. This indeed indicates that effective management of credit risk largely dictates the level of financial performance. Future studies are therefore warranted on how asset leasing affects financial performance, being one of the newer products and which is actively being promoted by the bank. This will equally provide some lessons that could be learned regarding the advantages and risks that might be associated with it, and the extent to which asset leasing contributes to the overall financial performance of the bank. Regarding this, researchers can give recommendations to the banks through actionable ways to better improve their product offerings, which in turn will provide better financial outcomes.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

Research questionnaire for employees in Centenary bank about credit risk assessment and financial performance of commercial banks.

Dear respondent,

This is an academic study about credit risk assessment and financial performance of commercial banks a case of centenary bank, Mukono branch. Your responses shall be kept confidential and will be used for only study purposes. This research will contribute to the award of my bachelor's degree of Science in Accounting and Finance Uganda Christian University. I humbly request for your cooperation.

Section A: Personal background information

Note: Tick where applicable

1. Gender

a) Male b) Female

2. Age group

a) 21-30 years b) 31-40 years

c) 41-50 years d) Above 50 years

3. Highest level of education

a) Diploma and below b) Bachelors degree

c) Masters degree e) PhD and above

4. How many years have you been working at Centenary Bank?

a) Less than 1 year

b) 1-5 years

c) 5-10years

d) More than 10 years

5. What is your current position/role at Centenary Bank?

.....

Note: *In these subsequent sections, use the scale provided to tick in the box of the relevant answer that describes your opinion.*

NB: *SA=Strongly Agree, A =Agree, NS= Not Sure, SD= Strongly disagree and D=Disagree.*

Section B: Credit Risk Assessment

Section C: Financial Performance

	STATEMENT	SA	A	NS	SD	D
1.	Our team conducts credit risk assessments regularly and consistently.					
2.	The credit risk assessment methods/policies used by Centenary Bank are effective in identifying potential risks.					
3.	I am confident in the accuracy of the credit scoring models used by Centenary Bank.					
4.	The credit risk assessment process at Centenary Bank includes thorough analysis of financial statements.					
5.	We have adequate resources (tools, software, etc.) for conducting comprehensive credit risk assessments.					
6.	Training on credit risk assessment is regularly provided and effective.					
7.	The credit history of customers is accurately evaluated during the credit risk assessment process.					
8.	Collateral evaluation is an integral part of our credit risk assessment.					
9.	The credit risk assessment team collaborates effectively with other departments.					
10.	Challenges such as incomplete information and inaccurate data are effectively managed.					
	Our credit risk assessment practices are aligned with regulatory requirements, contributing to financial stability.					

	STATEMENT	SA	A	NS	SD	D
1.	The financial performance of Centenary Bank has improved due to effective credit risk assessment.					
2.	Credit risk assessment has a significant impact on the profitability of Centenary Bank.					
3.	Effective credit risk assessment contributes to the liquidity management of Centenary Bank.					
4.	The asset quality of Centenary Bank is maintained through diligent credit risk assessment practices.					
5.	Our credit risk assessment practices help in achieving better capital adequacy ratios.					
6.	There is a clear understanding of how credit risk affects our financial performance among the employees.					
7.	Centenary Bank's earnings quality has improved due to robust credit risk assessment procedures.					
8.	Our bank's financial performance metrics (e.g., ROA, ROE) show positive trends due to effective credit risk management.					
9.	The bank's credit risk management practices have minimized the occurrence of non-performing loans (NPLs).					
10.	Continuous improvement in credit risk assessment methods is prioritized to sustain financial performance.					

Section D: Suggestions and Improvements

	STATEMENT	SA	A	NS	SD	D

1.	Improvements in credit risk assessment can further enhance the financial performance of Centenary Bank.					
2.	The feedback mechanism for credit risk assessment practices is effective and encourages continuous improvement.					

3. I have suggestions for improving the credit risk assessment policies and processes at Centenary Bank.

Please specify.....

Thank you very much for your participation.

APPENDIX 2: INTRODUCTORY LETTER



SCHOOL OF BUSINESS

19th Aug, 2024

TO WHOM IT MAY CONCERN

Name: **MUGGALE SUUBI REBECCA**

Reg. No S21B33/038

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

CREDIT RISK ASSESSMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA. A CASE OF CENTENARY BANK, MUKONO BRANCH.

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

The Uganda Christian University School of Business thanks you in advance



.....
Mukisa Simon Peter
Research coordinator

A Centre of Excellence in the Heart of Africa

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