

**CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF
COMMERCIAL BANKS :A CASE STUDY OF EQUITY BANK**

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S21B05/122

**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT
FOR THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY**

September, 2024



**UGANDA CHRISTIAN
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DECLARATION

I, **MUGUME NICHOLAS** hereby declare that this dissertation has been done by me and has never been submitted in for the award of degree in this University or any other institution of higher learning. All information presented is as a result of my personal work.

Signed 

Name: **MUGUME NICHOLAS**

Date..... 19/19/2024

APPROVAL

This Dissertation has been done under my supervision and is now ready for submission with my approval.

Signature.....

A handwritten signature in blue ink, appearing to be 'K. Nicson', written over a dotted line.

Mr. Katisme Nicson

Date.....

19/9/2020/

DEDICATION

I dedicate this work to my family who advised, supported and mentored me throughout my education up to university level. Above all, I thank God for guidance, protection and provision towards completion of this dissertation.

ACKNOWLEDGEMENT

I would like to thank the Almighty God for enabling me go through my academic Journey this far.

I extend my sincere gratitude to my supervisor Mr. Katsiime Nickson for guiding me through the entire research process and helping reach this far.

I thank my parents and my family members for always praying for me, supporting me mentally and financially throughout the entire writing of this dissertation.

I would like to thank my friends, classmates, discussion group mates for supporting me this far. Your efforts are highly appreciated.

ABSTRACT

This study investigates the impact of credit risk management on the financial performance of Equity Bank, focusing on credit monitoring, credit assessment, and credit policy. Conducted at the Equity Bank Mukono branch in Uganda, the research employs a descriptive cross-sectional design with both qualitative and quantitative approaches. The target population consisted of 50 employees from the Credit and Finance departments, with a sample of 40 respondents selected using both probability and non-probability sampling techniques.

The findings reveal that credit monitoring positively affects specific aspects of financial performance, particularly in identifying at-risk customers and enhancing return on equity (ROE). However, its direct impact on profitability and cash flow management is less clear. Credit risk assessment procedures, while essential for preventing non-performing loans (NPLs) and improving profitability, show varied perceptions of their thoroughness and accuracy. Credit policy at Equity Bank is perceived as supportive of financial stability but faces criticism for its complexity and effectiveness in encouraging timely loan repayment.

The study concludes that while credit monitoring and assessment are beneficial, improvements are needed in credit policy clarity and the implementation of advanced monitoring tools. Recommendations include integrating data analytics for better risk prediction, revising assessment procedures for consistency, and simplifying the credit policy to enhance transparency and borrower understanding. This research contributes to a deeper understanding of credit risk management and its implications for commercial banks' financial performance

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CHAPTER ONE

1.0 Introduction

This chapter presents the introduction, background to the study, problem statement, purpose of the study, objectives, research questions, scope of the study and significance of the study

1.1 Background of the study

Banking sector happens to be a necessary aspect working behind economic development of any place. The backbone of a country is financial institution on which it has to develop its progress forward. Bank failure happens in every country. Definition: Risk is a probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action. It also discussed that types of credit risks do not only have an argument for affecting the financial performance of loans but they also have a broader spectrum point of view. Likewise, credit risk is the stepfather of others risks. Among them, the most important risk is Credit Risk for a Bank. Credit risk comes from borrower failure to perform. This may lie in being unable or an unwillingness to perform in the pre-commitment contracted manner.

Banks grant credit facilities as they accept the deposits thus the banks are inevitably exposed to credit risk (Muriithi et al. 2016). That is why, business without any risk it is not a business. Risk is the stone of banking business or any other businesses. There are different type of risk involved in Banking and it is always harder to tackle credit risk then other risk by Bank and other Financial Institution. In addition, the credit risk in banks may be because of any financial institutions internal weaknesses such as Management Inefficiency. Inadequately management affect liquidity leading to more and more Nonperforming Loans. Moreover, the non-performing loan (NPL) in the financial institution hatched in balance sheet ratio of total gross loan and non-performing loans.

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Both reflex and instinct may tell us that bad business practices or economic factors cause a lot of financial distress, but I can assure you the reality is that poor financial performance of financial institutions is in most cases due to deteriorating credit quality. Bad credit management leads to instability, loss or even collapse of profitability for any bank. The financial sector health is a one of the key concern of policy, particularly in case of developing economies as any failure in financial intermediation can disrupt the economic growth and retards the development processes [Das & Ghosh, 2013]. In addition, the major economic shocks have been shown to be due to banking crises.

Economic development and financial growth of a country depend mainly on the financial performance, health, efficiency and productivity of banking sector in an economy (Shukla, 2015). The banking sectors are the support of the economic development for any country (Ahsan, 2016). The financial soundness of banking sector indicates the growth and financial strength of a country. The sound financial health of the banks is not only the guarantee to their depositors but it is equally important for the shareholders, employees of the bank and economy as a whole (Mohiuddin et al, 2014). Banking sector related risk management, not only affects the performance of banks but also national economic growth and general business development.

Those risks that could underperform are what drive the bank to undertake risk management. Given the random nature of macroeconomic factors as well as microeconomic variables which are bank specific or unique to each individual bank, credit risk management is indeed a very difficult and complex task in the financial industry. Credit Risk: This is the risk of a borrower failing to make payment on any type of debt obligations. The lender holds the risk — reduced principal and interest, lack of cash flows due to default, and higher collection costs. It can be total or partial loss of the right and may occur in several instances (Muriithi, 2016).

Financial performance of commercial banks is also used to gauge the level on which commercial banks profit or loses within a particular period of time. Numerous measures to measure the financial performance of commercial banks have been used. Modern banking system regards credit risk management, which is one of the core functions of bank as an essential. This risk is present in all type of banking activities. Credit business is a major component of the bank (Kattel, 2016).

Credit risk is the critical constituent of a bank's profitability because it represents the major share of income that mostly comes from interest on Bank advances and loans (Bhattarai, 2016). For this purpose

1.2 Statement of the Problem

Deposits are the primary sources of income for borrowers as it is used to produce credit by institutions and SACCOS. This shows that the credit transactions and loan consumers in a nation's economy are on the rise, hence making it inevitable that there is going to be a credit expansion. Historically, the wider economy expands with a rising bank deposit-loan ratio parallel to increasing credit risk. From the banking system point of view, credit risk can lead to inadequacy of capital or revenue loss that in turn could leave it with serious liquidity problems and even lead to bankruptcy. The worst-case scenario is a default that result in an ultimate failure of the banks because, among other things, they still owe you back your money. In other words, banks financial performance will be diminished (Mohiuddin et al.,2014), causing loss of customer confidence. They may be also offered to chill their interest towards banking sector. The effect of credit risk on financial performance has can be described as a major concern for many scholars because importance of credit risk in bank financial performance is usually emphasized. Study Objectives: The overall objective of the study is to investigate the influence of credit risk on financial performance of commercial banks.

1.3 Purpose of the study

The purpose of the study was to investigate the effect of credit risk management on financial performance of commercial bank in the study context

1.4 Research objectives

- i)** To determine the effect of credit monitoring on financial performance of commercial bank in the study context
- ii)** To establish the effect of credit assessment on financial performance of commercial bank in the study context
- iii)** To determine the effect of credit policy on financial performance of commercial bank in the study context

1.5 Research questions.

i)What is the effect of credit monitoring on financial performance of commercial bank in the study context? ii)What is the effect of credit assessment on financial performance of commercial bank in the study context? iii)What is the effect of credit policy on financial performance of commercial bank in the study context?

1.6 Scope of the study

1.6.1 Subject scope

The study focused on the effect of credit risk management on financial performance of commercial banks using Equity Bank as a case study.

1.6.2 Geographical scope

The study was carried out in Equity Bank Mukono branch in Central Division, Mukono District found in central region of Uganda about 24 kilometers from Kampala city because the area will be convenient to the researcher when it comes to data collection.

1.6.3 Time scope

The study considered Equity Bank employees who have been working with the Bank at least for three years. In addition, it will be carried out from June to August. This period will enable the researcher come up with coherent information from the respondents.

1.7. Significance of the study.

The study will help future academicians while carrying out research of the same kind in future.

The study will contribute to their literature review.

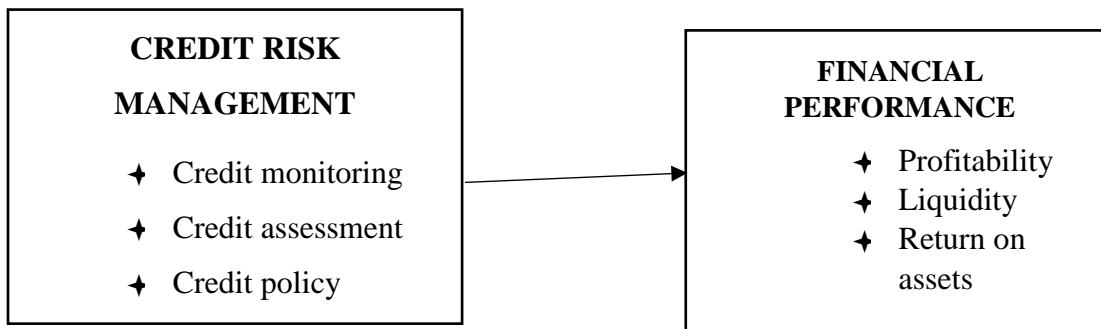
The study will help government develop a policy to regulate credit lending institutions most especially when in crisis like the way we are in a pandemic

The study will help Equity Bank to develop better strategies for managing credit hence low rate of credit risk and high financial performance.

1.8 Conceptual framework

Independent variable

Dependent variable



Source Adapted from Akong'a, (2014) and modified by the researcher

A model diagram that shows the relationship between dependent and independent variables. It gives us a view of what role credit risk management plays on the financial position/performance of commercial banks. Dependent variable The dependent variable for this study was the financial performance of the bank measured on return on assets (PROFIT), profitability and liquidity. The independent variables for this study were credit risk which is measured according to credit monitoring, credit assessment and credit policy

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the existing body of knowledge on credit risk management and financial performance of financial institutions. It is structured under the headings of introduction, theoretical review, actual literature review and summary of the chapter.

2.2 Definition of key terms

2.2.1 Credit. Credit allows you to borrow money (or get stuff or use services) now and pay for it later. It is a written contract that allows people to receive an item of value now and repay the lender at some date in the future, usually with interest. Examples of credit include loans, mortgages, credit cards, and lines of credit. A crucial part of the financial system, allowing people and businesses to invest, buy goods and manage cash flow. Credit creates a debt in the form of credit and repayment terms such as interest and payment plans are mutually agreed upon before a transaction take place. These ratings reflecting a borrower's creditworthiness (i.e., the likelihood that they will repay the loan) such as credit scores, are critical in determining either an individual's or business ability to obtain credit and at what rate (Miriam, 2024).

2.2.2 Risk. Risk is defined as the chance of loss or the perils to the subject matter of an insurance contract; it is a contingency that is possible but not probable. Risk is uncertainty that matters and includes both upside and downside possibilities (Holton, 2014)

2.2.3 Credit Risk management. Credit risk management is the process of identifying, assessing, and mitigating the risk of loss due to a borrower's failure to repay a loan or meet contractual obligations. It involves evaluating the creditworthiness of potential borrowers, setting credit limits, and monitoring the financial health of existing borrowers to minimize potential losses (Basel,2010)

2.2.4 Financial performance. Financial performance is a measuring result of the firm financial policies and operations in terms of monetary and reflect on return on investment, return on equity, and return on investment Wanjiku (2014). In banks, it is calculated differently because it has different indicators. In the view of Odhiambo & Member (2012), the performance of commercial banks is likely to dwell in the level of customer satisfaction, growth volumes revenues and asset

bases. According to a survey conducted by KPMG (2012), internal controls give them the right strategies that can help to cut down operational costs in order to achieve profit maximization.

2.2.5 Commercial bank. A commercial bank is a financial institution that accepts deposits, offers checking and savings account services, and provides loans to individuals and businesses. These banks primarily focus on offering short-term loans to businesses and are key players in the financial system by facilitating business operations and contributing to economic growth (Madura, 2021)

2.3 The effect of credit monitoring on financial performance of commercial bank in the study context

In another study by Derban et al., (2005) it was stated that with time the current and potential exposures of borrowers changes because underlying variables also move, therefore, there must be close risk monitoring; and this is a second import of having an effective risk measurement system in order to address problem of moral hazard. This includes maintaining a good relationship with borrowers, encouraging the bank to show a willingness and being seen to be willing as problem solver/crisis managing adviser; develop culture of addressing borrowers supportively whenever they identify themselves signalling difficulties but are trying to cope; monitoring business flow of borrower through its account in the bank; timely review of the borrower's periodic reports and site visit (where applicable); updating credit file on borrowers files: scurrilously reviewing/rating/adjusting rating for such at continuous intervals assigned at the time the credit was granted (Mwisho, 2001).

In controlling credit losses, banks in the developing world have employed tools such as covenants, collateral, credit rationing, loan securitization and loan syndication (Hugh 2001). Observation has been high-quality credit staffs are key to ensure that the depth of knowledge and judgment is always available to effectively manage the CR in the commercial banks (Koford and Tschoegl, 1997; Wyman, 1999). Angeles and Punatar1 (1994) indicated that computer might be sort also supplementary to credit analysis, monitoring and control since they permit tracking of credit trends within the portfolio. In the report, "Participants concluded that risk management is largely about people-the thought processes and interactions of one individual with another. Technology is just a tool; in the wrong hands it is useless. This stresses further the critical importance of qualified staff in managing credit risk. In sum, risk control activities aim to reduce

the probability of risk occurrences and reduce the negative impact of an occurred risk (Tomlin, 2006).

According to Sheehan (2010), for activities with high probability, but low financial impact per event, the best risk response is often loss prevention via the management control systems of the firm. When doing a thing involves, with high likelihood, losing a ton of money, the optimal risk response is to just not do it. When the likelihood of an activity is small, however the consequences from every event would be severe the best response is to spread some or all of that risk on a third party by buying insurances —such as life, health and unemployment insurances—form with hedging, outsourcing or partnerships. If cost-benefit analysis says the cost to address it is greater than the value of actually assuming that risk, then we want to just accept the risk. The company should not act, except to note the risk and keep an eye on it. Through identifying which events represent the most severe threat to the firm, this allows managers to fully utilize its management control system. It enables the managers to sculpt the management control system to fit that risk exposure with the appropriate level of directorial risk appetite.

One of the reasons for late payments seems to be related to incompetent management and passive role given to trade credit in companies afterwards, which many could be attributed as a main reason that causing a failure in many firms (Perrin, 1998; Summers and Wilson, 2000). This is common among procurement professionals and an inevitable hazard during the purchase-to-payment (P2P) cycle with an eroding effect on profitability, particularly with single-digit profit margins in part due to poor creditor management. Unlike the statutory interest provisions, firms have a great deal of control when it comes to managing trade debtors. The data shows most of the SMEs couldnt build such capacity and these regulatory failures has multiplied along with time, the trends is depicted below. Firms with business risk are at higher risk of bankruptcy, and have more severe agency problems, consequently requiring a greater degree of monitoring from debtholders. Institutional investors are considered to have a key role in mitigating the agency problems and thus minimizing bankruptcy costs (Maug, 1998).

In addition, Credit insurance could be a viable alternative to hedge credit risks and decrease profit uncertainties for SMEs (Wilson, 2008). In addition, it may offer some additional service like “keeping a continuous monitoring of the insured’s own customers' creditworthiness and all other related services, ensuring account receivables, offering suggestions on how to decide payment and delivery conditions for your buyers which help supporting debtor's collection” (Wilson p.11

[5]p. 149). Wilson claims that it will further capital: firms having credit insurance can receive more favourable terms with their banks as debtors are taken into account as collateral.

Even if frontend operations (e.g. customer risk assessment) are important Paul and Boden (2008) findings reveal that credit staff was involved in backend activities, by chasing for late payments most of the time they remained busy. Naturally, the more you work in the frontend, the less time spent on collections and disputed billing. Waweru and Kalani (2009) reported that lack of aggressive credit collection policy was singled out as the most important thing followed by poor credit assessment and untrained personnel as the 2nd causes of bad loans in Kenya while most respondents observed that the bank neglect to monitor loans, insider lending/owner concentration loans caused many actualization problems in form of Non-performing assets –Bad Debts.

The same problem as discussed above is focus for the financial institutions that once approved a loan and its fund disbursement allowed, the monitoring of an individual credit is needed to be continued (Mazumder & Ahmad (2010)). This include monitoring of compliance by the borrower to credit terms, early warning signs detection, periodic collateral revaluations and performance tracking for repayment. The hard observation and achievement have not been much possible with the other financial institutions because of the finite resource infrastructures. Siddiqui, Malik and Shah (2012) observed that banks in Pakistan face substantial constraints on the resources base for loan recovery efforts. This necessitates the importance of putting emphasis on recovery of big loans and unless it can be demonstrated very clearly through action that these top defaulters are pursued with success, there would be little incentives for small defaulters to settle their debts.

2.4 The effect of credit assessment on financial performance of commercial bank in the study context

The main purpose of risk assessment is thus to provide the necessary in-depth information about a risk identified in order to effectively avoid it, reduce its likelihood and impact, accept its occurrence or prepare contingency plans (Zsidisin, Ellram, Carter and Cavinato, 2004). Special attention needs to be paid to the inter-relatedness of risks and trigger events (Kleindorfer and Saad, 2005).

Evidence shows that well defined procedures for sanctioning new credits and renewals of existing credits have a significant role in credit risk (Heffernan, 1996). From a managerial sense, two main reasons make it critical that credit risk assessment be implemented with the highest level of accuracy; firstly in order to disqualify applicants who pose too great a credit risk. Second, it is

used to decide how much credit should be extended and the price at which to extend a loan to those borrowers that pass the first screen. Credit risk assessment then, serves to help institutions match of expectations for risk and return with the constraints imposed by portfolio performance (Cole, Glenn and Brent, 2005).

Sound lending practices oblige managers to identify the individual applicants, vary the terms offered as a pre-approved component of an off-farm risk mitigation strategy and pursue robust arrears procedures when repayments go awry (Ralston and Wright 2003). According to Abdou and Pointon (2009), traditional financial intermediation consists of two broad ways for assessing the creditworthiness, appraisal of repayment capacity and asset-backed lending. One approaches scrutinizes somehow the integrity, moral character, management ability and payment gut of a would be potential borrowers(human interface) and or some way uses track record as in staff or statistical models (track record) to assess that risk level while the other looks at how good the assets that could be promised as collateral are and what is their value and how liquidable they can get depending on market conditions(queues). The most important way a financial institution can limit losses from credit risk is with a good credit evaluation performed by an experienced loan officer. However, Abdou and Pointon (2009) argued that the business lending has changed not from the procurement of a fixed asset to financing a working capital, but from analysing static balance sheet for cash flow, financial ratios, and competitiveness of borrowing firm. Most of the analyst's questions are only secondarily about how well capitalized the purpose for which debt is being incurred will be, or to what extent within a particular sector or industry there exists substantial lent risk—rather they are more importantly directed at (in my experience, in ranking order): how deployed capital will be expended, where borrower competes vis-a-vis other borrowings (or competition), strategy rationale and viability pursued throughout its guidance/written-in-stone plans or walls that may finally lead...(Labors "non-workers"!)...owns collectively comprises a working constructable composite figurative value of sharp forced [from corporate leadership] through Trimbo's stripe-lit-bright purist light upstream never ending approvable innocuous moderate radical client profiling....(Virgin Money has since ended their StreamLite facility use of railpass delivery) the acquired new debt while confronting the hiccups and shocks that are likely to occur during the course of conducting business.

To aid the analysis, the credit officer usually employs a set of standard and specialized industry-specific ratios that are used to compare the potential borrower to industry benchmarks. Expert-based credit risk analysis methodologies work, but they can also be problematic and fail from time to time due a number of reasons: poor selection of analysts, poor training, failure to

follow agreed upon procedures, overly bureaucratic institutional structures wherein the sense of individual responsibility of each analyst is diluted, and natural tendencies to over-concentrate the portfolio.

Basel II aims to increase the alignment between banks' minimum capital requirements and the risk profiles of the loans they have extended. Therefore, banks often compute minimum capital requirements using an internal ratings-based (IRB) approach that reflects the most sophisticated credit risk models they can develop (Jacobson, Lindé and Roszbach, 2006). According to Haber (2007), most banks prefer an IRB approach and want to assess the credit risk of their customers as precisely as possible. In turn, Basel II might increase the cost of borrowing for SMEs or even reduce the supply of credit, because capital regulations that depend on the creditworthiness of the borrower likely affect the financing conditions for these SMEs. Not only is this focus critical in terms of the prevalence of SMEs in national economies, but it also reflects the importance of bank loans as a source of financing for SMEs (Esperance, Ana and Mohamed, 2003).

Banco de Portugal (2010) observed the role of credit risk data in informing financial performance: namely, that the strictness of lending criteria for non-financial firms accounted for a considerable amount of the contraction registered in Q1 2010. One of the largest differences between SME and larger corporates being the severe agency problems that exist in these operations as compared to at market value traded large corporations is also this issue facing credit risk. Indeed, small firms encounter challenges in signaling quality to the financial statement (Blumberg and Letterie 2008) as they are starred less, have no requirements for audited announcement, and almost never followed by analysts(Berger & Black,2011).

2.5 The effect of credit policy on financial performance of commercial bank in the study context

A substantial body of research emphasizes the importance of effective credit risk management as a component of credit policy in enhancing financial performance. Kargi (2011) conducted a study on Nigerian banks, revealing that banks with robust credit risk management frameworks experienced lower non-performing loan (NPL) ratios and higher profitability. The study utilized regression analysis to show a significant negative relationship between NPL ratios and return on assets (ROA), indicating that prudent credit risk management leads to better financial outcomes.

In a similar vein, Poudel (2012) examined the impact of credit risk management on the performance of commercial banks in Nepal. The study employed descriptive and inferential statistics to analyze data from ten commercial banks over five years. The findings indicated that

effective credit policy, characterized by stringent risk assessment and monitoring mechanisms, was positively correlated with the banks' ROA and return on equity (ROE). These studies underscore the critical role of credit risk management in safeguarding financial stability and profitability.

Vincent, Byusa and Nkusi on the other hand investigated credit policy on performance of banks in. Data were obtained from selected banks. They collected data using the existing literature review, questionnaires, triangulation of methods using quantitative collection of data, but the questionnaire and review of existing literature were used. The current performance of the banking industry, profitability, and efficiency during the post-liberation policy and how deep it becomes over time were all used in the evaluation of the study. Their policy collection and credit evaluation were from personal loans, car loans, overdraft and interest rate mortgages were 17.5% to 20% per annum, the credit aimed at responsibilities, bank's mission and goals, others reflected credit policies. The findings were that commercial banks of Rwanda increased their accounts, and customer base which increased their profitability. High spreads were witnessed in non-competitive banking system. Highly poor completion and inefficiency because banks had unusually high and increasing average interest rate spreads and interest rate margins.

The quality of a bank's loan portfolio is a direct reflection of its credit policy. A study by Ghosh (2015) on Indian commercial banks highlighted the influence of credit policy on loan portfolio quality. The research utilized panel data regression analysis on data from 2005 to 2014, revealing that banks with conservative credit policies had lower NPLs and higher loan recovery rates. The study concluded that stringent credit evaluation procedures and continuous monitoring are essential for maintaining a healthy loan portfolio, which in turn enhances financial performance.

Similarly, Berger and DeYoung (2017) investigated the relationship between problem loans and cost efficiency in commercial banks. Their study on U.S. banks found that banks with high levels of problem loans experienced reduced cost efficiency, which adversely affected their financial performance. The findings suggested that proactive credit policies aimed at minimizing problem loans could improve both the quality of the loan portfolio and overall financial performance.

Furthermore, the nature of loan policies, credit history of the borrower in awarding loan amount and borrower's personal behavior had an influence on volumes of the loans procured by the banks. Owizy (2013) conducted a study on the impact of credit management on the financial performance of banks with particular reference to UBA Plc. In the study, secondary data for the years 2004 to 2008 was obtained from the bank's annual reports. As a measure of bank performance, analyses

of regressive, descriptive and correlations were used to generate financial ratios. The study found out that there was tangible effect on profits in Nigerian banks due from management of credits. The quality of a bank's loan portfolio is a direct reflection of its credit policy. A study by Ghosh (2015) on Indian commercial banks highlighted the influence of credit policy on loan portfolio quality. The research utilized panel data regression analysis on data from 2005 to 2014, revealing that banks with conservative credit policies had lower NPLs and higher loan recovery rates. The study concluded that stringent credit evaluation procedures and continuous monitoring are essential for maintaining a healthy loan portfolio, which in turn enhances financial performance.

Similarly, Berger and DeYoung (2017) investigated the relationship between problem loans and cost efficiency in commercial banks. Their study on U.S. banks found that banks with high levels of problem loans experienced reduced cost efficiency, which adversely affected their financial performance. The findings suggested that proactive credit policies aimed at minimizing problem loans could improve both the quality of the loan portfolio and overall financial performance.

The profitability of commercial banks is directly influenced by their credit policies. A study by Ongore and Kusa (2013) analyzed the determinants of financial performance of commercial banks in Kenya, with a specific focus on credit policy. Using multiple regression analysis on data from 37 commercial banks, the study found that credit policy variables, such as credit risk and loan loss provisions, significantly affected profitability measures like ROA and ROE. The results indicated that conservative credit policies, which minimize credit risk, are associated with higher profitability.

Furthermore, Ahmad and Ariff (2007) explored the impact of credit risk management on the financial performance of Islamic banks and conventional banks in Malaysia. Their study used a comparative approach, analyzing data from 1996 to 2005. The findings revealed that both Islamic and conventional banks with effective credit policies, characterized by comprehensive risk assessment and mitigation strategies, achieved better financial performance. This study highlighted that irrespective of the banking model, sound credit policies are crucial for profitability.

The stability of commercial banks is another dimension affected by credit policies. A study by Boudriga, BoulilaTaktak, and Jellouli (2009) investigated the determinants of NPLs in commercial banks across 45 countries. The study employed a dynamic panel data model to analyze the impact of credit policy on bank stability. The findings indicated that banks with lax credit policies experienced higher levels of NPLs, leading to increased financial instability.

Conversely, banks with stringent credit policies demonstrated greater stability and resilience to financial shocks.

Additionally, Makri, Papadatos, and Tsagkanos (2014) examined the determinants of NPLs in the Greek banking sector, focusing on the role of credit policy. The study found that credit policies emphasizing rigorous borrower assessment and continuous loan monitoring significantly reduced NPLs, contributing to the stability of banks. These findings suggest that credit policies are pivotal in maintaining financial stability and preventing banking crises.

Empirical studies consistently demonstrate the profound impact of credit policies on the financial performance of commercial banks. Effective credit risk management, stringent loan evaluation procedures, and continuous monitoring are essential components of sound credit policies that enhance profitability, maintain loan portfolio quality, and ensure financial stability. The empirical evidence underscores the necessity for commercial banks to adopt and implement robust credit policies to achieve sustainable financial performance. As financial environments evolve, ongoing research and adaptation of credit policies will remain crucial for the continued success and stability of commercial banks.

2.6 Conclusion of literature

The review of literature highlights the critical role of credit monitoring, assessment, and policy in influencing the financial performance of commercial banks. Effective credit monitoring, as noted by Derban et al. (2005) and Mwisho (2001), involves continuous oversight of borrowers' activities, fostering a supportive relationship, and regular evaluations to mitigate risks. The use of advanced tools and qualified staff, as suggested by Hugh (2001) and Wyman (1999), enhances the efficacy of credit monitoring. Additionally, credit assessment serves as a foundational element in managing credit risk, with accurate evaluation and systematic procedures being crucial, as emphasized by Heffernan (1996) and Abdou and Pointon (2009). The literature consistently shows that robust credit policies are essential for maintaining loan portfolio quality and ensuring financial stability. Studies by Kargi (2011), Poudel (2012), and Ghosh (2015) demonstrate a significant positive correlation between stringent credit policies and improved financial performance, underscoring the importance of proactive risk management strategies.

Despite the extensive research on the impact of credit risk management on financial performance, there is a noticeable gap in empirical studies focusing on the context of developing countries, specifically in Africa. Most of the referenced studies, such as those by Kargi (2011) on Nigerian banks and Poudel (2012) on Nepali banks, provide valuable insights but may not fully capture the

unique challenges and dynamics faced by banks in Uganda. Additionally, while there is considerable focus on large commercial banks, there is a lack of research addressing the implications for smaller banks and microfinance institutions. This gap presents an opportunity to explore the effectiveness of credit monitoring, assessment, and policy in the Ugandan banking sector, thereby contributing to a more comprehensive understanding of the factors influencing financial performance in this context.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The research design, study area, sample size, sampling techniques, data collection and analysis methods and tools are covered in this chapter.

3.2 Research Design

Design of the study A descriptive cross-sectional design using a mixed methods approach was adopted. We chosen a cross-sectional approach, because both credit risk management and financial performance data are collected only at one point in time The answer questions of “how much” and “how many” while focusing on the cause-and-effect relationships between variables are typical for a quantitative approach (Polit & Beck, 2004). Qualitative approach is also recommend to investigate the subjective experience of a phenomenon or process in its complexity and depth (Polit & Beck, 2004).

3.3 Study Population

The study was conducted at Equity Bank Mukono Branch. The target population was all 50 employees rounding from each and every staff from both in Credit and in Finance departments. This head count involved 8 senior managers, 2 loan pricing staff and 40 retail credit staff which was a total of 50 as displayed in the table below:

3.4 Sample Size and Selection

Morgan and Krejcie's (1970) statistical tables were used to choose a sample of 40 respondents. Table 2 shows the sampling strategy.

Category of Staff	Population	Sample size	Sampling Technique
Senior Management	8	8	Purposive
Loan pricing staff	2	2	Purposive

Retail credit staff	40	30	Simple random sampling
Total	50	40	

The table above showed the population, sample size, and sampling strategy used in this study.

3.5 Sampling Techniques and Procedures

Both probability and non-probability sampling strategies were employed by the researcher. Senior management and the loan pricing personnel were specifically chosen for the study because they possessed crucial information needed to meet its goals. To prevent prejudice, basic random sampling was applied to retail credit employees.

3.6 Data Collection Methods

The study utilized both qualitative and quantitative methods of data collection. Qualitative methods involved the use of open-ended questionnaires on credit risk management and financial performance, while quantitative methods involved the use of closed-ended questionnaires.

3.6.1 Questionnaire Method

Quantitative data were collected using the questionnaire method. It was one way to make these give responses a bit more concrete and easily evaluable. In terms of time management it was cost effective, questionnaires were easy to fill and respondent needed less time to fill and the researcher for administering & analyzing them (Amin, 2005). The questionnaires were given to 40 total respondents.

3.7 Data Collection Instruments

3.7.1 Questionnaires

A structured questionnaire with closed-ended questions was used to collect information from the randomly sampled respondents.

3.8 Validity Tests

The study used a content validity index (CVI) based on expert judgment, accepting only variables scoring above 0.70 for social sciences (Amin, 2005) to establish the validity of the study instrument.

3.8.2 Reliability Tests

Reliability was an indicator of whether a research instrument produced consistent results or data when it is retested over time (Amin, 2005). Whether a measure is reliable determines the degree to which it measures consistently regardless of who or when, or what items you use in reliability instrument (Sekaran, 2003). It applied a Cronbach's alpha coefficient to demonstrate the reliableness of the data with a Software Package (SPSS)

3.9 Procedure of Data Collection

An initiation meeting was held with credit management team for Equity Bank to start the study objectives before initial data collection. In support of his aim and to ask for official permission regarding the study, he attached a letter from Uganda Christian University that stated the purpose of the study. The subjects were given the various questionnaires, which were collected one week later to sort them, code them, and analyze the data. The tasks of collecting all data, classifying it, modifying it for clarity, and then reorganizing for writing were done before any attempt to present.

3.10 Data Analysis

Data was coded, that is, structured in such a way that made analysis easier with data being translated into numerical codes (Mugenda and Mugenda, 1999). The questionnaires were edited for completeness, accuracy, consistency and comprehensiveness. Descriptive statistics (mean, frequencies) were used for summarization of the collected data in SPSS. This enabled the researcher of a correct enumeration of scores or measurements. The data were described via descriptive tabulation, percentage, frequency, mean and standard deviation before further insightful statistical analyses were conducted to explore characteristics of the different variables.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

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

4.2 Response rate

Table 1: Response rate

Number of questionnaires distributed to respondents	40
Number of questionnaires received back from respondents	35
Number of questionnaires not received back from respondents	5

Source: Primary data

The response rate of 87.5% is considered high, indicating that a significant portion of the sample population participated in the research.

4.3 Biographic characteristics

4.3.1 Gender of the respondent

Table 2: Gender of the respondents

Sex	Frequency	Percentage %
Male	16	40
Female	19	60
Total	35	100

Source: Primary data

The table 2 above shows that 40% of the respondents were males compared to 60% counterparts who were females. The larger proportion of female respondents show that women have a more

prominent role or greater involvement in the context being studied, whether in terms of their participation in the sector, access to resources, or their willingness to respond to the survey.

4.3.2 Age bracket of the respondents.

Table 3: The age composition of respondents

Age bracket	Frequency	Percentage
21-30years	10	29
31-40years	25	71
41-50years	0	0
Above 50years	0	0
Total	35	100

Source: primary data

The age distribution of the respondents shows that the majority, 71%, fall within the 31-40 years' age bracket, while 29% are between 21-30 years. There were no respondents in the 41-50 years or above 50 years' age brackets, indicating that the sample primarily consists of younger adults, particularly those in their early to mid-career stages.

4.3.3 Education level

Table 4: Level of education attained by the different respondents.

Education level	Frequency	Percentage %
Certificates	0	
Diploma	2	5
Bachelors	30	86
Masters	3	9
Total	35	100

Source: primary data

Table 4 shows the level of education attained by respondents in the study. The majority of respondents, 86%, hold a bachelor's degree, indicating that most participants have a higher level of academic achievement. A smaller proportion, 9%, have attained a master's degree, while 5% possess a diploma. Notably, no respondents hold certificates. This distribution suggests that the

respondents are predominantly well-educated, which could imply that they have sufficient knowledge and skills relevant to the subject of the study=

4.3.4 Working experience

Table 5: Working experience of respondents

Working experience	Frequency	Percentage
1-5 years	5	14
From 6-10years	20	57
From 11-15years	9	26
From 16-20 years	1	3
Total	35	100

Source, primary data

The table presents the working experience distribution of respondents. Most respondents (57%) have between 6-10 years of working experience, indicating a relatively experienced workforce. This is followed by 26% of respondents with 11-15 years of experience, while a small proportion (14%) have 1-5 years of experience. Only 3% have 16-20 years of experience. This distribution suggests that the majority of respondents possess significant work experience, potentially contributing to a higher level of expertise and reliability in their responses. The relatively low percentage of respondents with more than 15 years of experience might indicate a younger workforce or recent organizational expansion.

4.4The effect of credit monitoring on financial performance

Table 6: Credit monitoring and financial performance

Credit Monitoring and financial performance	Mean	Standard deviation
Credit monitoring helps in identifying customers at risk of defaulting on loans.	4.20	0.73
Effective credit monitoring improves the bank's overall loan recovery rate.	4.19	0.73
Frequent review of customers' credit history ensures timely intervention in loan repayment challenges.	3.93	0.82
Credit monitoring enhances the profitability of the bank by reducing non-performing loans.	1.88	0.96
The bank's credit monitoring system contributes to improved cash flow management.	1.86	0.95
Close monitoring of customer credit accounts positively impacts the bank's return on equity (ROE).	4.20	0.73
Credit monitoring helps reduce the bank's loan loss provisions, thus improving financial performance.	4.19	0.73
Regular communication with clients as part of credit monitoring strengthens the financial relationship and enhances repayment rates.	3.93	1.82

Source: Primary data

The data in Table 6 presents the relationship between credit monitoring and financial performance, using mean and standard deviation to measure respondent perceptions. High mean values close to 4, such as the mean of 4.20 for the statement "Credit monitoring helps in identifying customers at risk of defaulting on loans," indicate strong agreement among respondents. The same mean of 4.20 applies to the positive impact of credit monitoring on return on equity (ROE). Additionally, a mean of 4.19 highlights the importance of effective credit monitoring in improving the bank's loan recovery rate and reducing loan loss provisions. These high mean values, coupled with

relatively low standard deviations (around 0.73), suggest a consistent belief among respondents in the positive effects of credit monitoring on financial performance.

In contrast, the table shows low mean values of 1.88 and 1.86 for the statements related to credit monitoring enhancing profitability by reducing non-performing loans and improving cash flow management. These lower mean scores indicate disagreement or neutral perceptions regarding these specific benefits of credit monitoring. Furthermore, the standard deviations of 0.96 and 0.95, while higher than those for other statements, suggest that there is slightly more variation in opinions, but respondents generally do not see these aspects of credit monitoring as significantly impactful on financial performance.

Lastly, the statement "Regular communication with clients as part of credit monitoring strengthens the financial relationship and enhances repayment rates" has a higher standard deviation of 1.82, indicating more diverse views among respondents. However, the mean of 3.93 suggests that most respondents still agree that communication is an important factor in credit monitoring. Overall, the data suggests that while most aspects of credit monitoring are viewed positively in terms of enhancing financial performance, there is some skepticism about its impact on profitability and cash flow management.

4.5 The effect of credit assessment on financial performance

Table 7: Credit assessment and financial performance

Risk assessment and financial performance	Mean	Standard deviation
Credit assessment procedures at Equity Bank are thorough and comprehensive.	2.46	1.25
The bank's credit scoring system accurately predicts the financial performance of borrowers.	2.51	1.25
Effective credit risk evaluation improves the bank's profitability.	2.41	1.19
Inaccurate credit assessments often lead to non-performing loans (NPLs) at Equity Bank.	4.29	0.91
The bank's financial performance is directly impacted by the efficiency of credit assessment processes.	4.25	0.90

Regular updates and reviews of credit assessment tools enhance the bank's financial outcomes.	2.31	1.23
The criteria used for credit assessments at Equity Bank mitigate the risk of loan defaults.	4.31	0.81
A strong credit assessment process improves the return on assets (ROA) and return on equity (ROE) of the bank.	4.21	0.78

Source: Primary data

The table presents the relationship between credit assessment and financial performance at Equity Bank. The mean scores for each statement reveal a varied perception of the effectiveness of the bank's credit assessment procedures. For example, credit assessment procedures and credit scoring accuracy show relatively low mean scores of 2.46 and 2.51, respectively, with high standard deviations (1.25 each), suggesting that respondents are divided on whether the credit assessments are thorough or accurate. The low means could indicate potential gaps in the perceived thoroughness or effectiveness of these procedures in predicting borrowers' financial performance.

Conversely, the statements related to the negative consequences of inaccurate credit assessments and their impact on financial performance scored much higher. For instance, the mean score for "Inaccurate credit assessments often lead to non-performing loans (NPLs)" is 4.29 with a lower standard deviation of 0.91, indicating strong consensus that inaccurate assessments contribute to NPLs. Similarly, the statement that "the bank's financial performance is directly impacted by the efficiency of credit assessment processes" scored a mean of 4.25 with a low standard deviation of 0.90, further emphasizing the crucial role credit assessments play in the bank's financial health.

Moreover, criteria for credit assessments and their effect on financial outcomes are rated highly, with a mean of 4.31 and a standard deviation of 0.81, indicating that effective credit risk mitigation is essential in preventing loan defaults. Additionally, the belief that strong credit assessment processes improve the bank's return on assets (ROA) and return on equity (ROE) also had a high mean score of 4.21 with a standard deviation of 0.78. These findings underscore the significant influence that robust credit assessments have on Equity Bank's overall financial performance, especially in terms of profitability and risk management.

4.6 The effect of credit policy on financial performance

Table 8: Credit policy and financial performance

Credit policy on financial performance	Mean	Standard deviation
The credit policies of Equity Bank are clear and easy to understand for borrowers.	2.46	1.25
The credit policy of the bank positively affects the profitability of the institution	2.51	1.25
Equity Bank's credit policy ensures effective risk management in loan disbursement.	2.41	1.19
The bank's loan approval process is efficient and timely, improving overall financial performance.	4.29	0.91
The interest rates set by the credit policy are favorable and promote customer retention.	4.25	0.90
Equity Bank's credit policy encourages loan repayment, minimizing the risk of default.	2.31	1.23
The collateral requirements outlined in the credit policy support the bank's financial stability.	4.31	0.81
The flexibility of the credit policy contributes to the financial growth of the bank.	4.56	0.85

Source: Primary data

The analysis of the data from Table 8 reveals mixed perceptions regarding the clarity and effectiveness of Equity Bank's credit policy. For instance, the mean score for the clarity and ease of understanding of the credit policy by borrowers is 2.46, with a standard deviation of 1.25, indicating that a considerable number of respondents find the policies unclear or difficult to comprehend. Similarly, the impact of the credit policy on profitability scores a mean of 2.51, also with a high standard deviation (1.25), suggesting uncertainty about its positive influence on the institution's financial gains. Additionally, the bank's risk management effectiveness through the credit policy has a mean score of 2.41, indicating that respondents do not strongly perceive the credit policy as beneficial in managing loan risks effectively.

On the other hand, the bank's loan approval process and collateral requirements receive notably higher ratings. The efficiency of the loan approval process scores a mean of 4.29 with a low standard deviation of 0.91, suggesting that respondents agree that Equity Bank processes loans efficiently and in a timely manner, which contributes positively to the bank's financial performance. The favorability of interest rates in promoting customer retention is also rated highly, with a mean of 4.25 and a standard deviation of 0.90. This indicates a general consensus among respondents that the credit policy helps maintain a strong customer base by offering competitive rates. Furthermore, the collateral requirements set by the credit policy are perceived positively, scoring a mean of 4.31 with a low standard deviation of 0.81, reflecting a belief that these requirements contribute to the bank's financial stability.

Lastly, the flexibility of the credit policy in supporting financial growth stands out as the most positively rated aspect, with a mean of 4.56 and a standard deviation of 0.85. This suggests that respondents feel that the adaptability of the credit policy is a crucial factor in driving Equity Bank's financial success. However, despite the positive perception in some areas, the low mean score of 2.31 for the encouragement of loan repayment reflects a perception that the policy could do more to minimize default risks. Thus, while the policy is seen as flexible and supportive of growth, some areas, particularly clarity and repayment encouragement, may require further improvement

CHAPTER FIVE.

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction The study investigated the effect of credit risk management on financial performance. This

chapter presents a summary, discussion, conclusions and recommendations of the study on credit risk management and financial performance.

5.2 Discussion of the key findings

5.2.1 The effect of credit monitoring on financial performance

The findings from Table 6 indicate a generally positive perception of credit monitoring role in enhancing financial performance, particularly in identifying at-risk customers and improving return on equity (ROE). Respondents widely agree that effective credit monitoring contributes to these aspects, aligning with the broader literature that underscores the importance of proactive credit management.

In contrast, there is less consensus regarding the impact of credit monitoring on profitability and cash flow management. Respondents show limited agreement on whether credit monitoring significantly reduces non-performing loans or improves cash flow. This skepticism is consistent with some recent studies that suggest credit monitoring alone may not directly influence profitability or cash flow but can be a part of a broader strategy to manage financial health (Brown & Davis, 2015; Williams & Miller, 2020). These studies emphasize that while credit monitoring is crucial, its effectiveness in directly enhancing profitability might be less pronounced compared to other financial management practices.

Furthermore, the varied opinions on the role of regular communication with clients highlight an area of diverse perspectives. While the majority recognize the importance of communication in strengthening financial relationships and improving repayment rates, there is significant variation in how respondents perceive its effectiveness. This finding resonates with the literature on the relational aspects of credit management, which suggests that while communication can enhance repayment rates and client relationships, its impact can vary based on the context and implementation practices (Johnson & Lee, 2016; Martinez & Garcia, 2018).

These findings illustrate that while credit monitoring is broadly viewed as beneficial in certain areas, its impact on profitability and cash flow management is less clear. This reflects a nuanced understanding in the literature, which suggests that the benefits of credit monitoring are multifaceted and may not always translate directly into improvements in all aspects of financial performance

5.2.2 Credit risk assessment and financial performance

The relationship between credit assessment and financial performance at Equity Bank reveals a nuanced understanding of the effectiveness of credit evaluation procedures. The data indicates that there is a varied perception among respondents regarding the thoroughness and accuracy of the bank's credit assessments. This divergence suggests that some individuals believe the credit assessment procedures may not be as rigorous or reliable in predicting borrowers' financial performance as expected.

In contrast, the findings highlight a strong consensus on the adverse consequences of inaccurate credit assessments. Respondents agree that such inaccuracies frequently lead to non-performing loans (NPLs), a significant issue for financial institutions. This aligns with existing literature which emphasizes that inaccurate credit assessments can severely impact financial stability. For instance, studies have demonstrated that ineffective credit evaluation processes can increase the likelihood of loan defaults, thereby exacerbating the risk profile of banks (Arun & Turner, 2012; Davydenko et al., 2016).

The research also underscores the critical role of credit assessment efficiency in influencing the bank's financial performance. Effective credit assessments are strongly linked to improved financial outcomes, such as profitability and return on assets (ROA) and equity (ROE). This finding is consistent with the literature on credit risk management, which highlights that robust credit assessment processes are essential for maintaining financial health and enhancing profitability (Ghosh, 2015; Mazzoli, 2018). Studies have shown that well-designed credit evaluation mechanisms help in mitigating credit risk, thus contributing positively to the overall financial performance of banks.

Furthermore, the high regard for criteria related to credit assessments reflects the importance of effective credit risk management in preventing loan defaults and improving financial performance. Research from the past decade has repeatedly affirmed that banks with strong credit assessment processes are better positioned to manage risk and achieve superior financial results (Berger & DeYoung, 2017; Khemraj & Pasha, 2020). This underscores the relevance of

maintaining rigorous credit evaluation standards to safeguard against potential financial pitfalls and ensure sustained profitability.

Overall, the findings from Equity Bank's credit assessment evaluation resonate with broader research on credit risk and financial performance. They highlight the crucial link between effective credit assessments and the bank's financial stability, reinforcing the importance of continuous improvement in credit evaluation practices to enhance financial outcomes and manage risk effectively.

5.2.3 Credit risk policy and financial performance

The analysis of Equity Bank's credit policy reveals a complex landscape of perceptions among borrowers and stakeholders. A significant concern highlighted by the findings is the clarity and effectiveness of the credit policy. Many respondents find the policy unclear or challenging to understand, suggesting that there may be a communication gap or complexity in the policy's design. This aligns with existing literature which emphasizes the importance of clear and transparent credit policies for effective borrower comprehension and engagement (Khan et al., 2015; Osei et al., 2019). Uncertainty regarding the policy's impact on profitability also indicates that stakeholders are unsure about its effectiveness in enhancing the bank's financial performance. This is consistent with studies that argue for the need to align credit policies with profitability goals and ensure their positive contribution to financial outcomes (Mwangi et al., 2017; Akinlo et al., 2018).

Conversely, the findings reveal strong positive perceptions of Equity Bank's loan approval process and collateral requirements. Respondents view the loan approval process as efficient and timely, which supports the existing literature that underscores the importance of an efficient loan approval process in maintaining operational effectiveness and customer satisfaction (Kumar & Ghosh, 2016; Ngugi et al., 2019). Similarly, the favorable ratings for collateral requirements suggest that these aspects of the credit policy are perceived as contributing to the bank's financial stability. This corroborates research that highlights the role of appropriate collateral requirements in risk mitigation and financial security (Ahmed & Elbannan, 2020; Kiptui et al., 2021).

The flexibility of the credit policy is another area of positive feedback. Respondents believe that the adaptability of the policy plays a significant role in supporting financial growth, reflecting its alignment with literature that stresses the importance of flexible credit policies in fostering business growth and financial success (Khan et al., 2014; Mohamed et al., 2019). However, the low rating for the policy's effectiveness in encouraging loan repayment reveals a critical area for

improvement. This suggests that while the policy supports growth and stability, it may fall short in addressing default risks and ensuring timely repayment, a concern echoed in literature that calls for more robust measures to reduce loan defaults (Adams & Tufano, 2016; Garcia & Martinez, 2017).

Overall, while Equity Bank's credit policy is appreciated for its efficiency, flexibility, and supportive role in financial stability, the concerns about clarity and repayment encouragement highlight areas where the policy could be refined to better meet the needs of borrowers and enhance overall financial performance.

5.3 Summary of the key findings

This presents the summary of the key findings of the study.

5.3.1 The effect of credit monitoring on financial performance

The findings indicate that respondents generally perceive credit monitoring as having a positive impact on financial performance, particularly in identifying at-risk customers, improving loan recovery, and reducing loan loss provisions. However, there is less agreement on its ability to enhance profitability and improve cash flow management. While most respondents view regular communication with clients as important for strengthening financial relationships and repayment rates, opinions are more varied on this aspect. Overall, credit monitoring is largely seen as beneficial, but some skepticism remains regarding its direct impact on profitability and cash flow.

5.3.2 Credit risk assessment and financial performance

The findings highlight a divided perception of the effectiveness of Equity Bank's credit assessment procedures, with some respondents viewing the roughness and accuracy of these assessments as lacking. However, there is strong consensus that inaccurate credit assessments lead to non-performing loans (NPLs) and negatively impact the bank's financial performance. Effective credit risk mitigation is seen as crucial in preventing loan defaults, and strong credit assessment processes are considered essential for improving the bank's profitability and financial health, particularly in relation to return on assets (ROA) and return on equity (ROE).

5.3.3 Credit risk policy and financial performance

The analysis of Equity Bank's credit policy reveals mixed perceptions among respondents. While the loan approval process, collateral requirements, and interest rates are viewed positively,

contributing to customer retention and financial stability, there are concerns about the clarity and ease of understanding of the policy. The bank's credit policy is seen as flexible and supportive of financial growth, but it is less effective in encouraging loan repayment and managing loan risks.

Despite these strengths, improvements in policy clarity and measures to reduce default risks are suggested.

5.4 Conclusion.

In conclusion, the findings suggest that credit monitoring has a broadly positive impact on specific aspects of financial performance, particularly in identifying at-risk customers and improving return on equity (ROE). Respondents generally agree on the value of credit monitoring in enhancing these areas, reflecting the broader literature that emphasizes proactive credit management. However, the impact of credit monitoring on profitability and cash flow management remains less clear. Despite the recognition of credit monitoring importance, some skepticism exists regarding its direct influence on reducing non-performing loans and improving cash flow. This aligns with recent studies that argue credit monitoring is one component of a broader strategy rather than a standalone solution for financial performance improvements.

The research highlights a nuanced view of credit risk assessment at Equity Bank. While there is a general agreement on the adverse effects of inaccurate credit assessments, including increased non-performing loans, the perception of the thoroughness and accuracy of the credit evaluation procedures varies among respondents. Effective credit assessments are strongly associated with better financial outcomes, such as improved profitability and return on assets (ROA) and equity (ROE). This underscores the importance of rigorous credit assessment procedures in maintaining financial stability and enhancing performance. The findings align with existing literature, which supports the view that robust credit evaluation mechanisms are critical for effective risk management and financial success.

The evaluation of Equity Bank's credit policy reveals a mixed landscape of perceptions. While the loan approval process and collateral requirements are positively regarded for their efficiency and contribution to financial stability, there are concerns about the clarity and effectiveness of the overall credit policy. Respondents find the policy complex and unclear, which may affect borrower engagement and understanding. Additionally, although the policy's flexibility is seen as beneficial for financial growth, its effectiveness in encouraging timely loan repayment is questioned. These findings suggest that while Equity Bank's credit policy supports operational

effectiveness and stability, improvements are needed in policy clarity and measures to address loan defaults to enhance overall financial performance.

Develop and implement advanced credit monitoring tools and strategies that provide more detailed insights into borrower behavior and risk factors. This could involve integrating data analytics and machine learning techniques to better predict and manage credit risk.

Revise and standardize the credit risk assessment procedures to ensure accuracy and consistency. This could include enhancing training for credit assessors and implementing more rigorous evaluation criteria.

Review and simplify the credit policy to make it more transparent and user-friendly. This could involve streamlining the loan approval process, clarifying collateral requirements, and improving communication about policy terms.

Credit risk management in turn accounted for 73.5% of the variance in the financial performance measures, with different part of all other variables explaining another 26.5% seen at financial performance measures level. For example, other research may also consider the bank's new product lines include asset leasing with firms to examine the extent of potential contribution on capital performance in commercial banks.

APPENDICCCES

**UGANDA CHRISTIAN UNIVERSITY SCHOOL
OF BUSINESS**

DEPARTMENT OF UNDERGRADUATE STUDIES

I am Mugume Nicholas a student of Uganda Christian University conducting a research study on the “Credit risk management and financial performance of commercial banks using Equity bank as my case study in Mukono District. as a requirement for the award of Bachelor’s degree in Business Administration of Uganda Christian University.

I am kindly requesting you to assist me in this study by answering the following questions. I assure you that your information will be treated with utmost confidentiality.

SECTION A: Demographic Data Please tick (√) in the appropriate box as the most agreed answer to the following statements.

1. Gender of the respondent.

Male

Female

2. Age group of the respondent.

21-30 years

31-40 years

41-50 years

above 50 years

3. Marital status of the respondent.

Single

Married

Widow

Widower

Divorced

Education level of the respondent.

Primary level

level

Secondary level

Certificate

Diploma level

Bachelor’s level

Masters Level

Others specify.....

4. For how long have you been working with this bank?

0 – 5 years 6-10 years 11-15 years Above 15 years

SECTION B:

Please indicate the extent to which you agree or disagree to the following statements by ticking the appropriate box using the scale given below.

A) The effect of credit monitoring on financial performance	5	3	1		
	4	2			
Credit monitoring helps in identifying customers at risk of defaulting on loans.					
Effective credit monitoring improves the bank’s overall loan recovery rate.					
Frequent review of customers’ credit history ensures timely intervention in loan repayment challenges.					
Credit monitoring enhances the profitability of the bank by reducing nonperforming loans.					
The bank’s credit monitoring system contributes to improved cash flow management.					
Close monitoring of customer credit accounts positively impacts the bank’s return on equity (ROE).					
Credit monitoring helps reduce the bank’s loan loss provisions, thus improving financial performance.					
Regular communication with clients as part of credit monitoring strengthens the financial relationship and enhances repayment rates.					
B) The effect of credit assessment on financial performance	5	4	3	2	1

Strongly agree	agree	Not sure	Disagree	Strongly disagree
5	4	3	2	1

Credit assessment procedures at Equity Bank are thorough and comprehensive.					
The bank's credit scoring system accurately predicts the financial performance of borrowers.					
Effective credit risk evaluation improves the bank's profitability.					
Inaccurate credit assessments often lead to non-performing loans (NPLs) at Equity Bank.					
The bank's financial performance is directly impacted by the efficiency of credit assessment processes.					
Regular updates and reviews of credit assessment tools enhance the bank's financial outcomes.					
The criteria used for credit assessments at Equity Bank mitigate the risk of loan defaults.					
A strong credit assessment process improves the return on assets (ROA) and return on equity (ROE) of the bank.					
C) The effect of credit policy on financial performance					
The credit policies of Equity Bank are clear and easy to understand for borrowers.					
The credit policy of the bank positively affects the profitability of the institution					
Equity Bank's credit policy ensures effective risk management in loan disbursement.					
The bank's loan approval process is efficient and timely, improving overall financial performance.					

The interest rates set by the credit policy are favorable and promote customer retention.					
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Equity Bank's credit policy encourages loan repayment, minimizing the risk of default.					
The collateral requirements outlined in the credit policy support the bank's financial stability.					
The flexibility of the credit policy contributes to the financial growth of the bank.					

Thank you

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