

**CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF FINANCIAL  
INSTITUTIONS IN UGANDA. A SURVEY OF FINANCIAL INSTITUTIONS IN MUKONO  
MUNICIPALITY**

**BY**

**KAYAGA BRENDA SAMALIE**

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**A RESEARCH REPORT SUBMITTED IN PARTIAL FULFILLMENT AS THE REQUIREMENT  
FOR THE AWARD OF THE MASTER'S DEGREE IN BUSINESS ADMINISTRATION AT  
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**OCTOBER, 2023**

## DECLARATION

I, Kayaga Brenda Samalie declare that this research report is my original work and has never been submitted to any academic institution.

Signature.....  .....

Date;04/10/2023

KAYAGA BRENDA SAMALIE

## APPROVAL

This is to approve that Kayaga Brenda Samalie has carried out a research study on credit risk management and financial performance among financial institutions in Uganda, a survey of financial institutions, in Mukono municipality.

A handwritten signature in blue ink, appearing to read 'Kasozi Geoffrey', with a stylized flourish extending to the right.

Signature: *Kasozi Geoffrey*

Date: *06/10/2023*

Mr. GEOFFREY KASOZI

(Supervisor)

## DEDICATION

I take this opportunity to thank my beloved parents Mr. and Mrs. Lumu Edmund for the endless support they have rendered to me throughout this course. I also greatly appreciate Mr. Natuhereza Nicholas for the scholarship opportunity he offered to further my studies.

## ACKNOWLEDGEMENT

First, I thank God for the gift of life He has provided to me ever since and the wisdom given to me to make me accomplish this piece of work, may His name be praised.

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## GLOSSARY OF TERMS

ROA - Return on Assets

NPLs - Nonperforming Loans

NPLR - Non-performing loans Ratio

CIR - Cost to Income Ratio

BCBS - Basel Committee on Banking Supervision

LTCM - Long Term Capital Management

BOU - Bank of Uganda

UBOS -Uganda Bureau of Statistics

ROE - Returns on Equity

MFIs - micro-financial institutions

SFIs -Supervised Financial institutions

SPSS - Statistical Package for the Social Science

## EXECUTIVE SUMMARY

The study examined the effect of credit risk management on financial performance of financial institutions where specific objectives were to find out the influence of credit risk control and analysis on financial performance, relationship between credit risk management and financial performance among financial institutions. From a sample of 63 respondents, the researcher used qualitative and quantitative approach to collect data. Questionnaires were used to collect the data and was analyzed with SPSS. The correlation and regression analysis were carried out to find out the relationship between credit risk analysis and control on financial performance. From the research findings, credit risk analysis showed positive significance towards the financial performance of the bank with 0.001 significance level 2 tailed which is less than 0.01. However, from the correlation and regression analysis, credit risk control had a negative significance on financial performance with .625 which is greater than 0.01 significance level 2 tailed. This implies that any change of every unit in credit risk control affects financial performance of the banks and vice-versa. The study concludes that effective credit risk control improves the financial performance of the banks and it recommends that proper credit analysis and credit risk control should be highly monitored to improve the return on equity (financial performance).

## **CHAPTER ONE GENERAL INTRODUCTION**

### **1.1 Introduction**

This chapter consists of study background, research problem, research objectives, research questions, its significance and conceptual framework.

### **1.2 Background of the study.**

Borrowing and credit have been in existence for centuries however not until the Second World War that their true value was appreciated. A good source of credit tilted the balance of the war in Europe and was instrumental in the rebuilding effort in the aftermath of the war (Kitui, 2015). Around the 1950s, the credit concept was basically appreciated in Africa where majority of banks started opening their credit sections and departments to offer loans to foreign investors. In Uganda, the first commercial banks opened shops in the 1950s. Over the years, the banking industry has attained great prominence in Ugandan economy which has played a vital role in granting credit facilities to many businesses. However, mainstream banks have historically excluded low-income earners, farmers, and SMEs from credit financing due to the high credit risk involved (Aliija & Muhangi, 2015).

Globally, economies have been affected by financial crises especially the banking industry because of ineffective risk management practices that affected the performance of organizations. Not only does risk management greatly impact bank performance in the banking sector but also contribute to the country's economic growth and business development (Adeusi et al, 2013). That is ineffective risk management

facilitated the collapse of Barings Bank in 1995, 1998 LTCM crisis, 2008 financial crisis, and also the collapse of Enron and Arthur Andersen. For example, failure to recognize an operational risk or resolve it promptly as Barings bank engaged in uncertain market situations without authority or detection that resulted into \$1.5 billion loss which later led to the liquidation of the bank in 1995 (Stanistaw,2007). Following the events, financial institutions around the world have proven risk management necessary to attain financial viability and operational service efficiency. Therefore, banks are required to effectively practice risk management to keep the welfare of their investors while safeguarding their assets (Olalera & Wan, 2016, Olajide & Oye, 2020, Adeusi et al, 2013). The Basel Committee on Banking Supervision, therefore, made amendments in the previous accords that is from Basel I accord in 1988, to Basel II Accord in 2004 and then Basel III accord having recognized loopholes in accords that deal with credit risk management during the financial crisis (Godzo et al, 2019). BCBS, (1999) identified the major sources of bank troubles that are related to laxity in credit principles for borrowers, inadequate portfolio assessment, limited awareness on the changes in economic circumstances and emerging economies. The possible credit risk sources are as follows; limited institutional capacity, weak credit management policies, inadequate supervision, poor leading practices, laxity of credit assessment which result in non-performing loans as well as bad loan written off which lower the profitability, liquidity ratio, and return on assets (BOU,2019). Suddenly, successful firms or businesses will declare large losses as a result of credit exposures caused by changes in interest rates taken, or derivative exposures that maybe assumed to hedge the balance sheet risk or otherwise (Muthee, 2010)

The UBOS statistical abstract (2020) reported that the total outstanding loans and advances in domestic currency of commercial banks to the private sector have immensely gone up dominating the accounting by 13.8 percent from 7,780 billion shillings in June 2018 to 8,853 billion shillings in June 2019, whereas the foreign currency-denominated loans and advances to the private sector shoot up by 5.9 percent from 5,004 billion shillings in June 2018 to 5,298 billion shillings in June 2019. These trends threaten the sustainability and viability of commercial banks which hinder achievement of their goals. One of the problems faced by banks is failure of customers to meet their obligations leading to arise in non-performing loans. An increase in non-performing loans reduces the return on assets; this problem not only affects the profitability in both the short and longer period causing cash flow mismatches and liquidity problems (Karekezi and Butera, 2018, Kaigi, 2012). Therefore, the poor credit management policy, weak management of credit standards for borrowers, and ineffective portfolio management continue to increase exposure to credit risk in banks leading to financial distress. The researcher seeks to find out the effect of credit risk management and financial performance among financial institutions.

### **1.3 Research problem**

Financial institutions are such a strong support system to the economy through extending financial services to businesses and individuals within the nation thus facilitating economic growth and business development but this has always come with a risk while offering these services. Credit risk is still a major problem that financial institutions are facing even with the rigorous methods applied to evaluate customers before extending financial services such as loans. A firm's vulnerability to bankruptcy

increases, as financial borrowing increases in unfavorable conditions such as delays of the borrowers in meeting their credit obligations in time (Mushafiq et al, 2021).Therefore, the increase in the non-performing loans by 22.4 percent from Ush.696.8 billion in 2019 to Ush.853.1 billion at the end of 2020 (BOU,2020), bad debts are written off or loan loss provisions indicated high losses among financial institutions eventually resulting in financial distress are significant elements of focus for this study.

#### **1.4 The purpose of the study**

The purpose of the study was to scrutinize the effect of credit risk management on financial performance in financial institutions in Uganda.

#### **1.5 Specific objectives**

1. To find out the influence of credit risk analysis on financial performance
2. To investigate the influence of credit risk control on financial performance
3. To examine the relationship between credit risk management and financial performance.

#### **1.6 Research questions**

- How does credit risk control influence financial performance?
- Does credit risk analysis affect financial performance?
- Is there a relationship between credit risk management and financial

performance?

### **1.7.0 Scope of the study**

#### **1.7.1 Geographical scope**

The study was carried out at various financial institutions in Mukono municipality where the researcher reviewed the past reports from the past five years of the institutions. Mukono municipality was chosen because of its high concentration of financial institutions which needed to undertake credit risk management to enhance their financial performance.

#### **1.7.2 Content scope**

The variables that were studied were the influence of credit risk control and analysis on financial performance, the relationship between credit risk management and financial performance in those financial institutions. Credit risk management proxies as independent variables include; credit control, credit analysis and financial performance as the dependent variable are return on equity in terms of non- performing loans to total loans, asset quality ratio whereas intervening variable is corporate governance, this variable is a constant therefore it was not tested during this study.

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

- The study will be useful to decision-makers, in this case, financial institutions involved in credit risk management. Future academics who wish to explore and

comprehend credit risk management.

- Academicians who intend to conduct additional research on the same topic will find research to be important. These will also find the literature produced by the study to be very valuable because it has improved upon the body of literature already in existence
- The study may assist management develop better strategies in managing risks in the banking sector.
- The study provided more information on existing body of knowledge for other researchers and academicians.
- It may assist policymakers in formulating guidelines that improve the current risk management framework for financial institutions in Uganda.

### **1.9 Justification of the study.**

Whereas various data has been published on a similar area of study, poor risk management is still a challenge and persistent in many financial institutions due to the lack of a formal risk management system in place which has greatly affected the financial performance of these institutions in relations to liquidity, profitability, return on assets thus the research had to carry out research on the financial performance such that managers can prioritize the management of risks.

### **1.10 Conceptual framework**

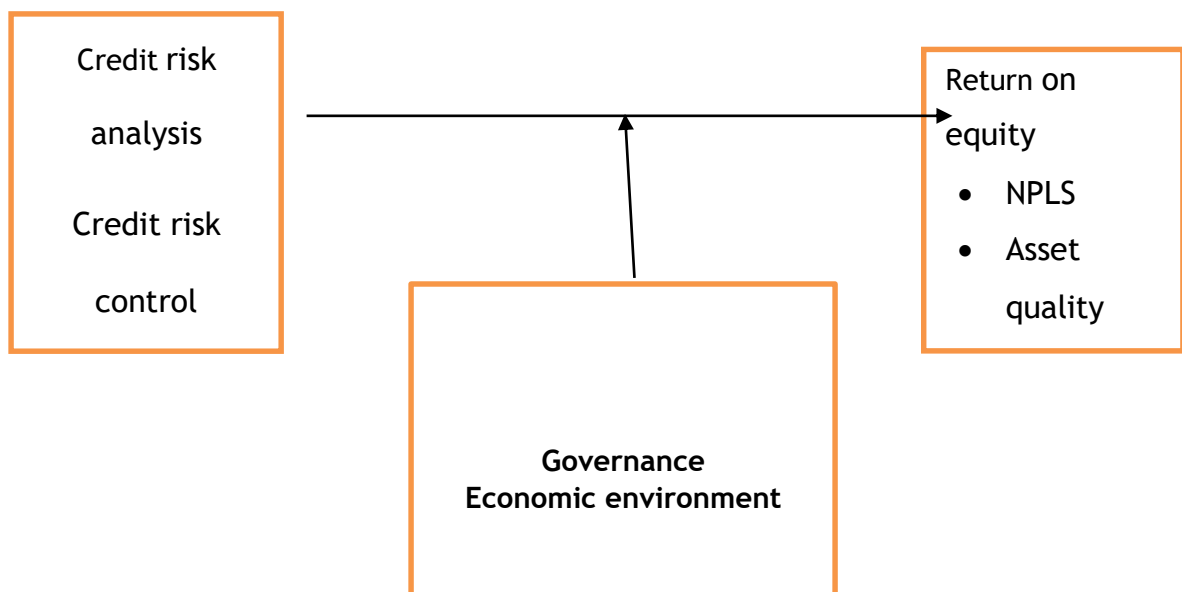
The researcher focused on the independent and dependent variables in the study. Therefore, corporate governance as an intervening factor between the variables remains a constant in this study. According to the BOU supervisory report (2019) during the examination of supervised financial institutions, corporate governance was emphasized and it was deemed to pose a significant risk to banks' performance and operations such as inadequate board composition, cases of senior management usurping the power of the board, failure to ensure timely resolution of supervisory findings and audit issues and lapses in succession planning. Credit risk and corporate governance move together because an ineffective governance structure creates loopholes that weaken financial stability of the firm and also leaving debtors vulnerable to losses. When these loopholes are exploited by customers and other stakeholders, it causes organizations to incur high debt financing costs. However, higher levels of corporate governance decrease the negative influence of credit risk on the firm thus improving the firm's performance (Chiungfeng et al, 2017). Therefore, it's on this assumption that corporate governance should remain constant in this study.

Independent variables

Dependent variables

**Credit risk management**

**financial performance**



### **Developed by the researcher.**

The conceptual framework shows that the financial performance of financial institutions depends on the degree to which credit risk is analyzed and credit risk is controlled. (Vaubel 1983) According to the conceptual framework financial performance had indicators like return on assets quality, Return on NPLS. Therefore, management of credit risk as an independent variable influences the dependent variable in this case financial performance of financial institutions

### **1.11 Conclusion**

This chapter based the study discussion on a firm background of credit risk management and financial performance drawing the need for carrying out the research through the study problem, stating the specific objectives that guided the study and drawing a framework of the variables while entailing the scope of the study.

## CHAPTER TWO LITERATURE REVIEW

### 2.1 Introduction

This chapter reviews the existing literature relevant to the study objective to find out; key concepts, discover important variables, synthesize and gain new perspectives. The researcher evaluated different literature for inconsistencies, evidence that was lacking, inclusive or contradicting.

#### 2.2.0 Theoretical review

This study based on financial distress theory

##### 2.2.1 Financial distress theory;

At this point the firm is unable to meet its financial obligation due to the decline in its business operations, thus the firm being in a condition of financial distress. The financial distress indicators are as follows; violations of debt payments and failure or reduction dividends payouts (Baldwin and Scott, 1983). Due to ineffective management of risks, poor performance of firms and economic distress, firms are said to have entered into financial distress thus resulting in high costs incurred (Wruck, 1990, Boritz, 1991). Financial distress theory applies to the study from the money lender's perspective. For financial institutions, one of their roles is to be able to accept and offer money to depositors in cash form and lend out loans to borrowers on demand leading to shortage in liquidity thus a necessity that firms address credit risk that can result in financial distress. Therefore, financial institutions should put up effective credit management policies and loan portfolio management to avoid financial distress. This is because the

poor management of credit risk may result in non-performing loans as well as bad debts are written off which are losses incurred by these institutions.

### **2.3 The influence of credit risk control on financial performance**

Allowing customer savings as well as lending out money to borrowers is the one of the major purposes of financial institutions that certainly exposing those to credit risk (Gathigia et al, 2017). The majorly and consistently risk that affects the banking sector continuously over the years is credit risk. Credit risk is likelihood that the debtor may delay making payments towards his/her obligation or fail to pay thus leading to cash flow problems and impact supervised financial institutions' liquidity. This arises when a debtor is unable to pay interest or principal in accordance to the conditions of the credit agreement (BOU, 2020).

While providing credit to customers, firm employ credit risk control system to ensure that it's provided to only customers who willing to pay and on time. In businesses especially manufacturing firms under financial controls, credit control is also employed to ensure that once a sale is made, its cash or liquid resources are realized. (Ndyagyenda, 2020).

In this context, credit risk control calls for the implementation of credit management policies that are used by banks while extending credit facilities to customers to improve their return on equity through minimizing the NPLs and improving the asset quality ratio. That is an effective credit policy that helps banks attain good clientele and shun the time costs incurred and disturbance of handling would-be defaulters in order to reduce credit and fraud losses while increasing the returns on asset loans. (Ndyagyenda,

2020).

Therefore, the credit risk control practices that influence financial performance include; Client appraisal is an preliminary step to restricting risk involved in granting credit services to customers such as; selecting customers to an assurance that they have the willingness and competence to repay their debts in advance (Asante, 2015). Aliija & Muhangi (2015) observed that loan appraisal is a viable method for reducing credit risk. In addition, to a great extent, most MFIs in Uganda use loans appraisal as a credit management technique where loan appraisal and credit management are strongly related as observed. In addition, Ndyagyenda (2020) observed that for a raise in credit risk control leads to a raise in performance by a coefficient of 1.317 thus stating that financial performance at bank of Africa is significantly influenced by credit risk control system.

Gathigia et al (2020) reported a negative influence of credit risk on the financial performance among commercial banks. In addition, they reported ROE to be inversely correlated to the NPL ratio of banks in that way resulting into the reduction in profit levels. When doubtful assets increase, income is lowered that corporations allocate a considerable share of their gross margin to provisions to cover expected credit losses consequently affecting the profit levels (Gathigia et al, 2020).

According to the BOU report (2019), the ratio of non-performing loans to total loans and advances (NPL ratio) is used to measure asset quality. The aggregate NPLs increased depressing the NPL ratio to 4.7 percent in December 2019 worse than 4.4 percent in September 2019 and 3.4 percent at the end of 2018 despite the registered increase in

gross loans and advances. In addition, the central bank highlighted that banks have a weak credit policy action to address credit risk in real estate lending where the appraised collateral value for loans in some cases are far higher than the intrinsic value.

Serwadda (2018) reported negative significant relationship between non-performing loans and bank performance (ROA) in his study portraying 21.8% increase in non-performing loans thus reducing their profits. In addition, he noted that the non-performing loans greatly influence the asset quality of these banks.

Aliija and Muhangi (2015) observed that poor methods are used to carry out client's credit assessment greatly contributing to credit defaults. In case, falsified information is presented to obtain loans as well as falsified business financial performance from earlier periods contribute to credit defaults. In addition, when collaterals whose values are exaggerated or impaired are accepted, this contributes to loan defaults too accordingly.

One of the major weaknesses that were earlier identified was ineffective loan monitoring by credit officers due to poor supervision, especially from the top management. It is therefore essential for a system put up by administration to ensure that credit officers effectively monitor all loans disbursed as a method of reducing the risk of default (Oteino, 2015).

#### **2.4 Credit risk analysis and financial performance**

Ross et al (1998) defines credit risk analysis as the process where decisions are made to whether or not give credit to a given customer and this involves gathering relevant

information and determining creditworthiness.

The management of credit risk requires assessment of creditworthiness of a customer as an initial phase in the process of approving loans. As part of credit risk assessment process, Banks need to carry out thoroughly analyze the customers financially and non-financially so as to decrease the number of borrowers that will default. The historical financial background of the borrower in terms of repayments of the past loans and the balance sheet of the borrower is significant in this process. In addition, through looking at customer's cash flows that show expected returns on assets the capacity to repay the loans is ascertained (Munangi & Sibindi, 2020).

The banks' performance, growth and survival are largely affected by the increase in credit risk as a result to untrustworthy customers and poor-quality loans, therefore making management of credit is vital (Munangi & Sibindi, 2020).

Financial institutions use 5C's as a channel to understand their customers better thus improving their loan portfolios and they include; character, collateral, capability to pay, capital, and condition (Bekele, 2019). Character is the most important criteria to consider by banks and a pillar on which banks rely to grant credit facilities which relates to the status of the client, individuality, and willingness and desire to meet their loan obligations (Al-Zararee et al, 2021). Asante, (2015) highlighted the factors to consider when investigating an applicant's character which include; the client's historical savings conduct, mental health, training level, occupation dependability, contact and connection to government offices, and historical transactions with the bank, while MFIs analyze loan applicant's character through use of intuition (Aliija and Muhangi, 2015)

In addition, collateral: a bank conducting assessment of collateral estimation is related to borrower's financial health which helps the bank to reduce the risk involved at the time of default (Bekele, 2019). Capacity and cash flow relates to the client's ability to meet his/her obligations to others through creating cash flows. The other core element which assists in reducing the credit risk is capital (Al-Zararee et al, 2021). Asante (2015) further suggested that as reliable principle, a bank would not desire to invest more cash in business than the borrower. Aliija & Muhangi (2015) identify poor record and bookkeeping as a major hindrance to collecting information necessary for making a loan decision. They further identified falsification of financial records by the borrower as a major problem to loan appraisal that often leads to occurrence of non-performing loans.

#### **2.4 The relationship between credit risk management and financial performance**

The BOU quarterly report (2020) indicated potential decline in loan quality remains the primary concern for financial stability in relation to credit risk. During the pandemic lockdown, the increase in NPLs was moderated by BOU credit relief measures enabling troubled businesses and households to restructure their loans and ensure that the borrowers facing economic stresses which doesn't significantly affect bank's asset quality.

Gathuru (2015) observed that credit assessment; credit risk control and collection procedures affected the financial performance of MFIs thus establishing that these elements strongly relating to financial performance of these institutions.

Credit risk identification is negatively significant to non-performing assets (NPA) as

identified by Sirius et al (2019) in their study. They further advised that risk managers need to invest in evaluating the creditworthiness of potential borrowers to mitigate the credit risk by recognizing it at an early stage.

Chiungfeng et al (2019) observed that credit risk negatively impacts firm performance. In addition, they observed that the existence of effective corporate governance structure reduces negative influence of credit risk on firm performance.

Mushafiq et al (2021) in their study of financial performance under influence of credit risk in non-financial firms observed that Credit risk is significant and with positive relationship to the return of assets with a co-efficient of 0.010.

Munangi & Sibindi (2020) examined the empirical analysis on impact of credit risk on the financial performance of South African banks and found out that there is negative relationship between credit risk and financial performance where results indicated an rise in non-performing loan ratio resulting into a decline of 490% in return on asset of South African banks. In addition, the return on equity also was negatively related to non-performing loans among commercial banks in Sri Lanka (Rasika and Sampath, 2016).

Nyagol et al (2016) stated that loan loss provision coverage ratio is negatively significant by -0.138 and -0.157 on return on average assets and return on average equity respectively meaning for every increase in loan loss provision coverage decreases ROAA by 0.138 and ROAE by 0.157. In addition, they observed that portfolio at risk as a measure of asset quality concerning non-performing loan to total loan revealed significant negative impact on MFIs performance meaning that the higher level of NPLs means high credit risk and poor asset quality management of MFIs (Nyagol et al, 2016).

In his study, Serwadda (2018) found out NPLs are negatively related to bank performance (ROA) as portrayed that profit levels are decreased by the rise in non-performing loans by 21.8% from the results. The study further showed banks are exposed to low liquidity levels and other financial crises as the non-performing loans were inversely influenced bank's performance. As a result of ineffective credit management policies, these impacts on asset quality as well as affecting bank performance in due course resulting into increased loan losses and NPLs thus financial distress among banks (Serwadda, 2018).

Akram and Rahman (2018) observed in their study of credit risk management that asset quality has negative relationship with credit risk management whereas positively significant effect was noted between loan quality and credit risk management. Therefore, the variations in loan and asset quality cause changes in the credit risk management so Islamic banks' management need to critically analyze loan quality and portfolio and also give due preference to asset quality so as to shun NPLs and credit defaults in the future. Ramazan et al (2019) observed that relationship between credit risk and returns on asset was significantly negative due to increased credit services rendered by banks and ineffective monitoring and screening of borrowers. Therefore, when unsecured assets increase, the money set aside for provisions to cover expected loan defaults also raises. In addition, asset quality and return on equity relate negatively that is as a portion of non-performing loans increases, asset quality decreases as well as return on equity (Ramazan et al, 2019).

## **2.5 Emerging gaps.**

Difference between this study's findings and those in the literature review: The evaluation of the available research explains and emphasizes the importance of credit risk management on financial performance. The authors of this study make the supposition that each risk management techniques and demographic traits will likely obstruct and influence the financial performance. Therefore, the discrepancy between the findings of the literature study and this research dissertation is in identifying the how credit risk management a financial development tool for financial performance Therefore, the purpose of this study is to identify the factors that influence how credit risk management can influence financial performance. Other study implications should highlight a few additional elements that can support the findings.

Ramazan et al (2019) observed that relationship between credit risk and returns on asset was significantly negative due to increased credit services rendered by banks and ineffective monitoring and screening of borrowers. Therefore, when unsecured assets increase, the money set aside for provisions to cover expected loan defaults also raises. In addition, asset quality and return on equity relate negatively that is as a portion of non-performing loans increases, asset quality decreases as well as return on equity (Ramazan et al, 2019).

## **2.5 Conclusion**

This chapter gathered to explain and relate secondary scholarly literature with the study topic, verifying each specific objective in discussion with other research studied while showing the emerging gaps between the study topic and the literature

## CHAPTER THREE

### METHODOLOGY

#### 3.1 Introduction

This chapter entails area of study, research design, information sources, study population, sampling techniques, data collection methods and tools, data analysis, variables and indicators, and methodological constraints.

#### 3.2 Research design

The researcher employed the descriptive research design; since it helped the researcher reveal characteristics and behavior of the study variables. An engulfment of quantitative approach was selected for this study because it is a formal objective, systemic process in which numerical data are utilized to obtain information. In order to find out the influence of credit analysis on financial performance: the influence of credit control on financial performance and to establish the relationship between credit risk management on financial performance A survey research was used and so as to ascertain the relationship between variables, Correlation and regression were employed.

#### 3.3 Area of study

The researcher undertook a survey of financial institutions in Mukono municipality.

#### 3.4 Sources of information

Secondary sources were used to collect data like journals, internet. The researcher also employed primary sources such as questionnaires that were taken to the respondents in the field.

### 3.5 Study population

Population is defined as total collection of individuals or objects to which the study seeks to generalize its findings. The study targeted a population from 5 financial institutions each having 15 respondents. These financial institutions face challenges of credit risk management.

### 3.6 Sample size

Having targeted 75 respondents, 63 respondents was determined as sample size using statistical tables of Morgan and Krejcie (1970) as below;

<b>Respondents</b>	<b>Population</b>	<b>Sample size</b>	<b>Sampled technique</b>
Managers	5	5	Purposive
Loan staff	5	5	Random
Retail credit staff	65	53	Simple random sampling technique
<b>Total</b>	<b>75</b>	<b>63</b>	

### 3.7 Sampling technique

A simple random sampling technique was used to select respondents from whom where

data was collected from. This sampling technique allowed institutions of the sample to be selected randomly by chance thus giving equal chance to be selected. (Creswell and Plano Clark 2011) A purposive sampling technique to decide on the respondents whom the data was collected was used for the two categories like managers and Loan staff. Purposive sampling was used to ensure equal chance of being chosen as a respondent This made the researcher to use judgment of an expert while collecting the required information from the selected participants. The participants included branch managers, credit officers.

### **3.8 Variable and indicators**

The study consisted of study variables that were; credit risk management and financial performance as the independent and dependent variables respectively. The indicators of credit risk management such as credit risk analysis and control whereas the dependent variable indicators are return on equity in terms of NPLs and asset quality ratio.

### **3.9 Data collection procedure**

To attain the research objectives, the researcher undertook a survey to collect data by use of the questionnaire method. The researcher therefore used this method to collect primary data on the study variables.

#### **3.9.1 Questionnaires**

Using a questionnaire to collect data involved drafting questions to collect information from the respondents about given study variables.

#### **3.10 : Data collection tools**

The research used a self-administered questionnaire to the various employees at the

financial institution. The questionnaires were both open and closed-ended format entailing questions concerning the objectives of the research.

### **3.11 : Data validity and reliability of research instrument.**

#### **3.11.1. Validity test**

The researcher used a Content Validity Index (CVI) that is ranging between 0.78 and 0.9 to test for the validity of the questionnaire. The researcher used 13 questionnaires for the variables; on the identification of risks, credit control and 11 for the financial performance

**Table 1: validity test (CVI)**

<b>Variables</b>	<b>No. of questions</b>	<b>Valid items</b>	<b>CVI</b>
Credit risk Management	13	11	0.84
Credit risk control	13	12	0.92
Financial performance	11	9	0.82

Table 1 above with the percentage ranging from 0.82 - 0.92 which were above 0.78 thus the test was valid.

### **3.11.2. Reliability test**

To ensure the validity and reliability of the data, a pilot test was carried out. The researcher used a questionnaire to solicit information from small group respondents with adequate knowledge about the study. The researcher then input the data into SPSS to estimate the Cronbach's alpha statistic. The researcher then used the equation below to calculate the Cronbach's alpha  $\alpha$  and for the alpha  $\alpha > 70\%$  indicated that the questionnaire was reliable.

**Table 2: Reliability test (SPSS)**

<b>Variables</b>	<b>No. of questions</b>	<b>Reliability</b>
Credit risk Management	13	0.87
Credit risk control	13	0.78
Financial performance	11	0.87

Table 2 above percentages of the reliability was ranging from 0.78 - 0.87 which was

higher than the alpha value thus being reliable.

### **3.12 Data analysis**

Data was analysed using SPSS software. The researcher used descriptive data to explore, predict, explain and describe phenomena. The researcher obtained averages: mean and the standard deviations from the research findings and the normality of the data determined and analysed using ordinal regression and correlation analysis.

### **3.13 Methodological constraints**

The researcher faced challenges such as high costs on transport and other research equipment needed in the research process, limited information availed by the sampled financial institutions due to the secretiveness of the institutions.

### **3.14 Ethical considerations and procedure of data collection**

The following ethical considerations were taken into consideration by the researcher based on those raised by Callahan (1998):

The School of Business and Administration at Uganda Christian University Mukono granted ethical clearance.

Interviewees were advised that the study was a requirement for the researcher's master's degree and that the financial institutions in Mukono may use the findings to enhance the financial performance.

Each research subject provided the researcher with their informed consent. After the participant had the chance to thoroughly consider the risks, and benefits, and ask any

pertinent questions, this was agreed to in writing. It was believed that informed consent was a continuous process rather than a one-time thing

The researcher explained how privacy and confidentiality issues should be handled and was mindful of how information is safeguarded against unauthorized access as well as whether and how participants should be informed of any unexpected research results that they are not supposed to know. The data was stored on a computer with a password that was only known to the researcher. The interviewees were told they might leave at any time, even in the middle of the interview, if they wanted to.

### **3.10 Conclusion**

From the discussion above, chapter three covered the methodological part of this research. It reviewed the research design, population of the study, sampling and sampling techniques, research instrument and its validity, data collection methods and data analysis methods. This formed a basis on which chapter four was done.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND INTERPRETATION OF THE DATA

#### 4.1 Introduction

This chapter entails the findings, research findings' analysis, and interpretation of the results. The findings were presented in accordance to the specific objectives of the study.

#### 4.2.0 Demographic characteristics of the respondents

The demographic presentation was in relation to gender, age of the respondents, position held, and years worked while at the bank.

#### 4.2.1 Respondents' gender

Gender was considered because it also influences the employee performance in any work place and the results are presented in the table 1 as below.

**Table 3: Respondents' gender**

Frequency		Percent	Valid Percent
Valid	Male	36	57.1
	Female	27	42.9
	Total	63	100.0

*Source: primary data 2023*

From the research findings, of the respondents 57% were male while 43% were female. This could be that males understand risk management system effectively as compared to females.

#### 4.2.2 Age of the respondents

The respondents' age was observed during the study and findings were presented as below;

Table 4: Respondents' Age

		Frequency	Percent	Valid Percent
Valid	between 20 and 29 years	16	25.4	25.4
	between 40 and 49 years	30	47.6	47.6
	between 30 and 39 years	11	17.5	17.5
	50 years and above	6	9.5	9.5
	Total	63	100.0	100.0

Source: *Primary data 2023*

It was observed that majority 47.6% were between 40 and 49 years of age and the least were 50 years of age with 9.5%. This could be that elders are considered to be trustworthy, well experienced and varsity with handling of risks of the organization.

#### 4.2.3 Working period of the employees

The working period of the respondents was analyzed since it makes employees to be more knowledgeable and results were presented in the table below;

**Table 5: Period employees had worked for at the banks**

		Frequency	Percent	Valid Percent
Valid	less than a year	3	4.8	4.8
	between 1 and 5 years	16	25.4	25.4
	between 5 and 10 years	4	6.3	6.3
	between 10 and 15 years	26	41.3	41.3
	15 years and over	14	22.2	22.2
	Total	63	100.0	100.0

*Source: primary data 2023*

From the research findings, it was found out that majority 41.3% had worked between 10 to 15 years and this implies that these employees had good experience concerning credit risk management in the organization.

#### **4.3.0 Risk Management systems**

The researcher wanted to know whether the financial institutions had credit risk management system and the results were tabulated as below

**Table 6: Whether banks had risk management system**

	Frequency	Percent	Valid Percent
Valid Yes	63	100.0	100.0

*Source: primary data 2023*

From the findings above, all (100%) banks had their own credit risk management system that help to manage risks especially credit risk.

#### 4.3.1 Whether the credit risk management system was effective

On whether credit risk management systems for the banks were effective, the research findings were as tabulated below;

**Table 7: Whether the credit risk management system reliable**

		Frequency	Percent	Valid Percent
Valid	highly effective	10	15.9	15.9
	Effective	26	41.3	41.3
	moderately effective	21	33.3	33.3
	Ineffective	4	6.3	6.3
	highly ineffective	2	3.2	3.2
	Total		63	100.0

**Source: primary data 2023**

From the research findings, 41.3% as majority of banks had effective credit risk management system, 33.3% of the banks had moderately effective credit risk management system and 15.9% had highly effective credit risk management systems this implies that all banks have effectively tried to manage credit risks through their credit risk management system.

#### 4.3.2 Benefits of loan to the banks

The benefits of loans to the banks was observed as the researcher wanted to know what major benefit does the bank hope to obtain when it tries to make a wide variety of loans to different kinds of customers as in the table 8 below;

**Table 8: Hopes of the banks to make wide variety of loans**

		Frequency	Percent	Valid Percent
Valid	move from specific risk exposure	11	17.5	17.5
	Diversification	23	36.5	36.5
	guaranteed income	29	46.0	46.0
	Total	63	100.0	100.0

**Source: primary data 2023**

From the research findings, it was found out that most 46% of banks give out a wide variety of loans to customers since they hope to generate/guaranteed income, 36.5% of banks hope to diversify when lending out money to customers, and 17.5% to move from a specific risk exposure.

### 4.3.3 Determination of credit risk analysis

The researcher sought to understand how credit risk analysis was determined and the results were as below;

**Table 9: How credit analysis is determined**

		Frequency	Percent	Valid Percent
Valid	potential business with the company	37	58.7	58.7

nature of inquiry	10	15.9	15.9
size of the inquiry	13	20.6	20.6
Others	3	4.8	4.8
Total	63	100.0	100.0

Source primary data 2023

From the findings in the table 9 above, most 58.7% of the banks analyze credits basing on the potential business with the company, 20.6% size of the inquiry and 15.9% nature of inquiry were the ways by which banks use to determine credit risk analysis.

#### 4.3.4 Consideration in Credit risk analysis

The researcher wanted to know the main factors of consideration in credit analysis and the following results were generated;

**Table 10: factor of consideration in credit analysis**

		Frequency	Percent	Valid Percent
Valid	historical financial analysis	31	49.2	49.2
	collateral assessment	21	33.3	33.3
	quality management	6	9.5	9.5
	cash flow projection	5	7.9	7.9
	Total	63	100.0	100.0

*Source: primary data 2023*

From the research findings, most 49.2% of banks use historical financial analysis as the major factor of consideration in credit analysis, 33.3% of the banks use collateral assessment of the customers were the major factors observed by the banks. This implies that banks majorly consider the above factors in credit risk analysis.

#### 4.3.5 What do creditors generally prefer

The preference by the creditors while giving out loans was also analyzed and the results were as below;

**Table 11: Preference of creditors towards loan management**

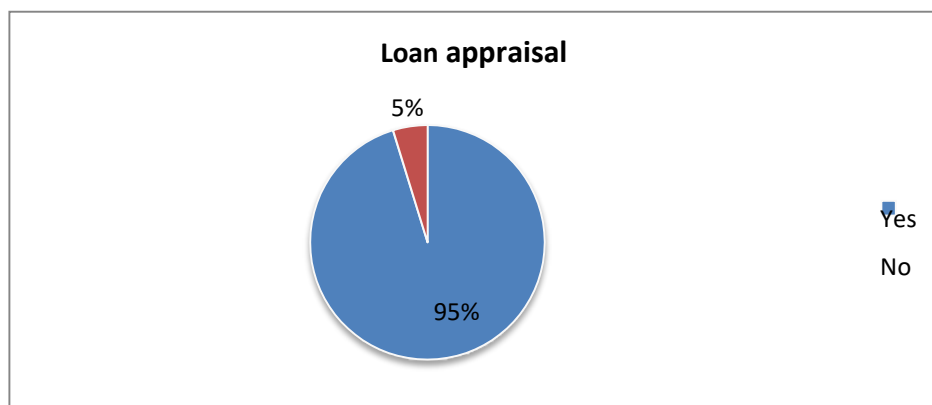
		Frequency	Percent	Valid Percent
Valid	tangible assets	33	52.4	52.4
	collateral based on intangible assets	4	6.3	6.3
	depends on the amount involved	17	27.0	27.0
	depends upon company's creditworthiness	9	14.3	14.3
	Total	63	100.0	100.0

*Source: primary data 2023.*

From the research finding in the table 11 above, 52.4% of the banks prefer tangible assets; this implies that the banks handle the credit risks very well since they tangible assets are preferred making it easy for the banks to secure their loans given out using these assets.

**4.3.6 Whether the organization appraise loan applicants**

The appraisal of loan applicants was also observed during the research and the results were as follows;



**Figure 1: whether the organization appraise loan applicants**

From the figure above; it was revealed that 95% of the banks could appraise loan applicants to manage the risks in the banks thus improving the performance of loans in banks.

**4.3.7 Time taken for the appraisal to take place**

The time taken for the appraisal to take place per client were observed since it also influences the credit risk control in banks and the results were tabulated as below;

**Table 12: Appraisal time**

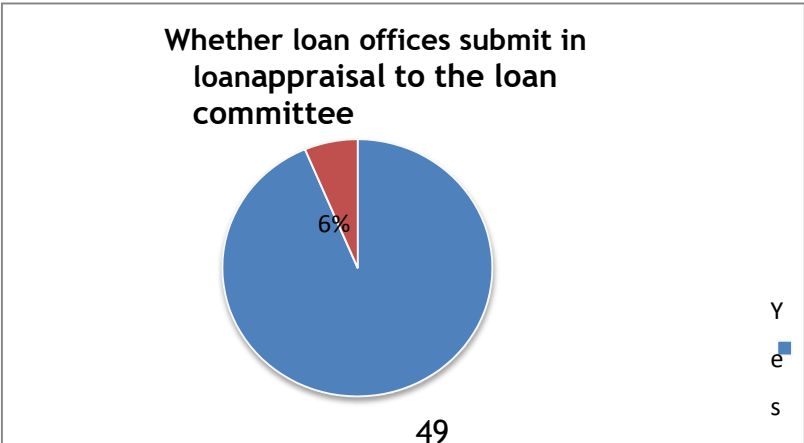
		Frequency	Percent	Valid Percent
Valid	for every loan applied for	45	71.4	71.4
	Quarterly	10	15.9	15.9
	once a year	2	3.2	3.2
	semi annually	6	9.5	9.5
	Total	63	100.0	100.0

**Source: primary data 2023**

From the table 12 above, it was revealed that 71.4% of the banks could make appraisal for every loan applied to ensure that risks in loan were minimized thus proper credit risk control in the financial institutions.

**4.3.7 : Whether loan officers make and submit in loan appraisal reports**

The submission of the loan appraisal reports to loans committee was observed since it helps to manage loan defaults through analysis of loan applicants and the results were



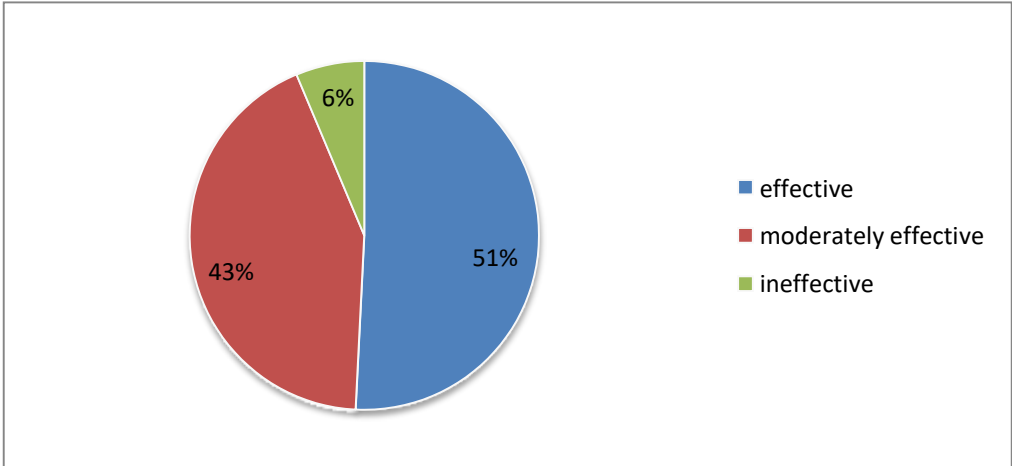
represented in the figure 2 below;

**Figure 2: Whether loan offices submit in loan appraisal to the loan committee**

From the findings in the figure 2 above; reveals that 94% of the employees agreed that loan officers submit the loan appraisal to the loan committee. This implies that the committee is responsible for managing the credit risks in the financial institutions through assessing the risk of extending credit services to certain applicants or customers.

**4.3.8 How effective is loan appraisal in management of credit risk**

The effectiveness of loan appraisal in management of credit risk was observed since it helps to mitigate the risk on non- performing loans as a result of loan defaults by the customers. The following results were obtained,



**Figure 3: how effective is loan appraisal in management of credit risks**

From the figure 3 above; it was observed (51%) that loan appraisal is effective in management of credit risks in financial institution.

**4.3.9 How many days after due date do you contact your client**

The numbers of days taken by any financial institution to contact their clients was observed, this could remind the clients on the payment of credit to the banks and the

results were tabulated as below;

**Table 13: period taken to contact the clients**

		Frequency	Percent	Valid Percent
Valid	Immediately	32	50.8	50.8
	after three days	20	31.7	31.7
	a week	11	17.5	17.5
	Total	63	100.0	100.0

*Source: primary data 2023*

From the research findings above, show how long does the bank take to contact their clients after the due date, it was revealed 50.8% could contact their clients immediately to ensure that they observe the terms and conditions lied out and agreed on. This is another way of controlling the credit risks among the banks.

#### 4.3.10 Is the credit control system fully integrated within the accounting system?

Credit control system being integrated within the accounting system was another factor which could affect credit risk management in the banks and following results were obtained.

**Table 14: Response on credit risk system being fully integrated with accounting system**

		Frequency	Percent	Valid Percent
Valid	Yes	45	71.4	71.4
	No	18	28.6	28.6

Total	63	100.0	100.0
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*Source: primary data 2023*

From the research findings above, 71.4% of the respondents said yes that their systems in the bank were fully integrated to the accounting system. This was to ensure transparency and proper management of cash flows in the banks.

#### 4.3.11 Who is responsible for authorizing loans to the applicants

Authorization of loans to the clients was also observed and the findings were tabulated as below;

**Table 15: Loan authorization**

		Frequency	Percent	Valid Percent
Valid	loan committee	44	69.8	69.8
	loan officer	15	23.8	23.8
	Manager	4	6.3	6.3
	Total	63	100.0	100.0

*Source: primary data 2023*

From the findings above; 69.8% of the respondents said that loans are authorized by the loan committee, 23.8% said that their loans are authorized by loan officer. Authorization of loans is one of the credit risk control policies in the banks.

#### 4.4 The influence of Credit risk analysis on financial performance.

As the first objective; to find out the influence of credit risk analysis on financial performance where 5-point Likert scale was used. Means and standard deviation were calculated using the SPSS software. The means were calculated since there were

thirteen items which had to be analyzed and from the Likert Scale are significant from; (4.21 - 5.0) - strongly agree, (3.41 - 4.20) - agree, (2.61 - 3.40) - neutral, (1.81-2.60) - disagree and (1-1.80) - strongly disagree.

**Table 16: The influence of Credit risk analysis on financial performance.**

Statements	Mean	Std. D
<b>A) Credit risk management</b>		
<b>1) Credit risk analysis</b>		
Loan appraisal is a viable strategy for managing credit.	3.92	.9380
Creditors prefer collateral based on intangible assets as compared to tangible assets.	3.60	1.326
Client appraisal considers client's personality seeking for credit or loans	3.68	.981
Effective loan appraisal enables the proper assessment of loan applicants thus facilitating the decisions on whether to offer the loan or not	4.06	1.076
Aspects of collateral as security are considered while appraising clients	4.24	.689
Quality of loan assets is improved through loan appraisal	3.60	.871
Failure to asses client's capacity to repay results into loan	3.43	1.132

defaults.		
Available loan monitoring and collection procedures have assisted towards effective credit management thus reduces on the non-performing loans	4.05	1.115
The use of customer credit application forms improves monitoring as well as credit management thus reducing on loan defaults.	2.40	.640
Loan approval decisions are made by the loans committee	4.24	.907
The enforcement of guarantee policy provides a chance of loan recovery in case of loan defaults	4.02	1.175
Flexible repayment periods improve loan repayment	3.32	1.175
The use of credit checks on regular basis enhances credit management	4.02	1.211

**Source: primary data 2023**

From the research findings in table 16 above; on regard to collateral as security on appraising clients, respondents strongly agreed with mean 4.24, with loan monitoring and collection procedures in assisting towards effective credit management respondents agreed with mean of 4.05, Effective loan appraisal enables the proper assessment of loan applicants thus facilitating the decisions on whether to offer the loan or not, respondents agreed. With regard to Loan appraisal is for managing risks in banks, the respondents agreed with a mean of 3.92, with whether Creditors prefer collateral based

on intangible assets as compared to tangible assets, respondents were in agreement with a mean of 3.60. Statement on whether Client appraisal considers client's personality seeking for credit or loans was agreed with at mean value of 3.68.

With the statement about aspects of collateral as security are considered while appraising clients, Quality of loan assets is improved through loan appraisal, Failure to assess client's capacity to repay results into loan defaults, Loan approval decisions are made by the loans committee, The enforcement of guarantee policy provides a chance of loan recovery in case of loan defaults, Flexible repayment periods improve loan repayment as well as use of credit checks on regular basis enhances credit management, respondents agreed with the statements with means indicated in the table 16 respectively. This implies that the banks had effective credit risk analysis thus proper credit risk management in banks and also indicates that the use of customer credit application forms improves monitoring as well as credit management thus reducing loan defaults does not have any effect on the analysis since respondents disagreed with the statement with the mean of 2.40

#### **4.5 The influence of Credit risk control on financial performance**

In respect to the second objective; the influence of credit risk control on financial performance of the bank. The findings were tabulated as below using a 5-point Likert scale, the means and the standard deviation.

**Table 17: The influence of Credit risk control on financial performance**

<b>A) Credit risk management</b>	<b>Mean</b>	<b>St. D</b>
<b>2) Credit risk control</b>		
Credit risk control has an effect on bank's operations.	4.16	.787
Regular reviews done during collection procedures improve the state of credit management	3.43	1.027
Credit limits improve asset quality through diversification of loan portfolio	3.10	1.132
Credit limits help in limiting the risk exposure of banks from many loan defaulters	3.16	1.247
Penalty for late payment enhances customer commitment to loan repayment	3.38	1.023
Loans committee involvement in making decisions regarding loans is essential in reducing loan defaults or credit risk	2.98	1.085
Performance of loans is normally affected by the interests charged	3.94	.878
Terms and conditions reduce the risk of having non-performing loans in loan portfolio through providing remedies for loan defaulters	3.43	1.011
Loan monitoring reduces on the chances of defaulting by the borrowers	3.24	.995
On loan application, the applicant warrants that information provided is accurate, correct and given for purpose of obtaining the loan	3.43	.797
The person/s signing on the loan application is duly authorized by the	2.71	.851

applicant to apply for credit and this application on their behalf		
Credit extension to the loan applicant is authorized by the loan committee	4.59	.496
The duration for payment of the loan should be agreed on between the loan applicant and the bank.	3.33	1.164

**Source: primary data 2023**

With the statement asked whether Credit risk control has an effect on bank's operations and respondents agreed with the mean of 4.16, with regular reviews done during collection procedures improve the state of credit management respondents agreed with the mean at 3.43. The statement asked whether the Credit limits improve asset quality through diversification of loan portfolio and Loan monitoring reduces the chances of defaulting by the borrowers and respondents were neutral with the mean of 3.10 and 3.24 respectively. With Credit limits help in limiting the risk exposure of banks from many loan defaulters.

The statements asked whether the performance of loans is normally affected by the interests charged Terms and conditions reduce the risk of having non-performing loans in loan portfolio through providing remedies for loan defaulters, and on loan application, the applicant warrants that information provided is accurate, correct and given for purpose of obtaining the loan respondents agreed with the mean of 3.94, 3.43 and 3.43 respectively. On regard to credit extension to the loan applicant is authorized by the loan committee there was a high response since strongly agreed with mean of 4.59. However, the statement whether the person/s signing on the loan

application is duly authorized by the applicant to apply for credit and this application on their behalf, respondents disagreed with the mean of 2.71.

This implies that banks had moderate ways in managing credit risks in their financial institutions hence, a necessity for financial institutions to strengthen the credit risk control measures so as to improve profitability and performance in general.

#### 4.6 Financial performance of banks

The financial performance was analyzed from the questionnaires and it was measured using eleven items. The means and standard deviation were calculated using SPSS and data was tabulated as below;

**Table 18: Financial performance**

A) FINANCIAL PERFORMANCE (Return on equity & asset quality)	Mean	Std. D
Active loan portfolio increases the bank's income available for lending out	3.84	.902
Large number of loan defaulters reduces the bank's income available for relending since money is still held by the defaulters.	3.98	1.198
Higher asset quality ratio is expected to be more efficient in bank's earning profits	3.67	.718
Strong collection procedures improve the returns earned thus increasing the bank's profitability	3.98	1.008
Compliance of management to financial regulations accelerates efficiency	2.41	1.116

thus increasing the return on assets		
Use of monitoring and collection procedures increases return on assets through lowering the non-performing loans to total loans thus increasing profitability	3.87	.660
Return on assets tracks the asset- use over time and monitor the firm's performance in relation to industry performance.	2.63	.903
Loan portfolio helps to diversify the risk associated with non-performing loans	3.83	.925
Long term loans lower the bank's capacity to lend out to other loan applicants	3.87	1.225
Monitoring of the loan portfolio is vital to ensure that loans don't default	4.62	.490
The value of the loan portfolio depends on the principal, interest owed and the average creditworthiness of the loans.	3.03	.999

**Source: primary data 2023**

From the research findings in the table 17 above it revealed the how Active loan portfolio increases the bank's income available for lending out, Large number of loan defaulters reduces the bank's income available for relending since money is still held

by the defaulters, Higher asset quality ratio is expected to be more efficient in bank's earning profits and Strong collection procedures improve the returns earned thus increasing the bank's profitability influence financial performance and respondents agreed with the means ranging from 3.41 - 4.20

The statement asked whether the use of monitoring and collection procedures increases return on assets, Loan portfolio helps to diversify the risk associated with non-performing loans, Long term loans lower the bank's capacity to lend out to other loan applicants, Monitoring of the loan portfolio is vital to ensure that loans don't default, value of the loan portfolio depends on the principal, interest owed and the average creditworthiness of the loans were variable factor on the performance of financial banks with mean ranging from 3.41-4.2.

However, return on assets tracks the asset use over time and monitors the firm's performance in relation to industry performance and compliance of management to financial regulations accelerating efficiency of the banks.

#### **4.7 The relationship between Credit risk management and financial performance**

Ordinal regression analysis of two tailed using Spearman co-efficient was used to measure relationship between credit risk analysis and control and financial performance.

Data was tested for the normality and it was found out that the results were not normally distribution thus use of ordinal regression analysis.

## 4.8 Regression analysis

Table 19: Regression analysis results

		Estimate	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Threshold	[Perform = 3.09]	-3.172	4.994	.525	-12.959	6.616
	[Perform = 3.18]	-1.285	4.913	.794	-10.915	8.345
	[Perform = 3.27]	-.962	4.910	.845	-10.584	8.661
	[Perform = 3.36]	-.479	4.907	.922	-10.097	9.138
	[Perform = 3.45]	.051	4.906	.992	-9.564	9.667
	[Perform = 3.55]	.807	4.907	.869	-8.811	10.425
	[Perform = 3.64]	1.263	4.909	.797	-8.358	10.884
	[Perform = 3.73]	1.691	4.910	.731	-7.933	11.315
	[Perform = 3.82]	2.975	4.920	.545	-6.668	12.618
	[Perform = 3.91]	5.184	5.010	.301	-4.636	15.004
Location	Analysis	.752	.532	.158	-.291	1.796
	Control	-.527	1.276	.680	-3.028	1.974

Link function: Logit.

The results from regression analysis showed a positive and significant influence between credit risk analysis and financial performance whereby an increase in credit risk analysis increases the performance of financial banks by 75.2% on every unit change of the analysis.

However, with the risk control there is a negative co-efficient implied that a reduction in the credit risk control measures reduces financial performance among financial institutions and vice visa by 52.7% for every unit change in the control measures.

#### 4.9 Correlation analysis

To determine the significance of the study variables, A bivariate correlation analysis was used using Spearman co-efficient of 2 tailed and the results were as below;

**Table 20: Correlation results**

Correlations			Analysis	Control	Performance
Spearman's rho	Analysis	Correlation	1.000	-.063	.417**
		Coefficient			
		Sig. (2-tailed)	.001	.625	.001
	N	63	63	63	
Control	Correlation	-.063	1.000	-.036	
	Coefficient				
	Sig. (2-tailed)	.625	.	.780	

	N	63	63	63
Perform	Correlation Coefficient	.417**	-.036	1.000
	Sig. (2-tailed)	.001	.780	.
	N	63	63	63

\*\* . Correlation is significant at the 0.01 level (2-tailed).

From the bivariate correlation analysis, credit risk analysis is statistically significant with P-value of 0.001 indicating a positive relationship with financial performance; However, the credit risk control is insignificant with P-value of 0.625 which is greater than 0.01 therefore, negative and insignificant relationship between credit risk control and financial performance among financial institutions.

#### 4.9 Conclusion

This chapter presented and interpreted the results in line with the study objectives which included the influence of credit risk management on financial performance: the influence of credit risk control on financial performance and to establish the relationship between credit risk management and financial performance. The results were presented using univariate, bivariate and multivariate statistics where tables and figures (graphs and pie charts) were also used

## CHAPTER FIVE

### SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

#### 5.0 Introduction

This chapter entails summary and discussion of the findings based on study objectives; It also consists general conclusion and recommendations of the research report as well as the limitations of the research

#### 5.1 Summary and discussion of the research findings

##### 5.2.1 Credit risk analysis and financial performance of banks

A positive relationship between credit risk analysis and financial performance among financial institutions implied that an increase on credit risk analysis of the bank for each unit measure improves the financial performance by 75.2% as showed by the regression analysis therefore this implies that credit analysis a variable factor which affect the bank performance therefore increase in the analysis of risks in the bank improves the performance of the financial institution and vice versa. It has been observed that effective loan appraisal enables the proper assessment of loan applicants thus preventing loan defaulters thus limiting the increase of non- performing loans thus improving financial performance. These findings are in line with Munangi & Sibindi, (2020) in their research findings on credit risk analysis showed a positive and significant influence on financial performance thus increase on the credit risk analysis improves the performance as it reduces the risk of customer defaults as the banks are reliant on capability to handle credit valuably through managing credit analysis which guides risk

assessment and control.

### **5.2.2 Credit risk control and financial performance of financial institution**

From regression analysis, there was a negative correlation co-efficient of (0.625) which is greater than 0.01, therefore, it shows that any change of the unit measure of the control measure affects the financial performance of the bank negatively which results into failure of the credit risk control. Credit risk control is an core determinant of the bank performance meaning that the higher exposure of a bank to credit risk, the higher tendency to experience financial distress in terms of non-performing loans and lower asset quality ratio and vice-versa. The research findings were similar with that of Poudel (2012) in his study on credit risk control and financial performance among commercial banks in Nepal where it was noted with no proper credit risk control of the financial institution, there is high chance of failure of banks leading to financial distress.

### **5.3 Conclusion**

From the research findings in respect to the main and specific objectives, the results showed that credit risk analysis was vital bank performance analyst therefore, proper and effective credit risk analysis should be well determined and implemented while offering credit services to customers thus improving on the financial performance among these institutions since it had a positive significance of 75.2%. The study also showed that credit risk control is also determinant of financial performance of financial institutions in Uganda. Proper credit risk control systems are effectively implemented to improve financial performance of these institutions with a significance interval of 52.7%.

In conclusion therefore, proper credit risk analysis and control contributes to the financial status of the banks in terms of performance. This is because effectively implemented credit risk management policies improves return on equity through minimizing NPLs and improve the asset quality ratio.

#### **5.4 Recommendations**

According the research findings, credit risk analysis boosts the improved financial performance therefore financial institutions have to emphasize on the better analysis measures to improve their credit management policies so as reducing on non-performing loans thus improving financial performance.

The financial institutions in Uganda and worldwide are still affected by credit risk. Financial institutions therefore supervisory duties should be essentially performed and must come up with good and effective risk control systems in their credit risk management systems. Reliable and efficient control systems by the financial institutions will help in ensuring that banks comply with credit risk control guidelines thus lowering non-performing loans and increase on asset quality.

From the research findings; credit risk control measures must be put into consideration since proper control of credit risk assists in improving financial performance among financial institutions thus reducing on loan defaults in addition to improving profitability.

## **5.5 Limitations of the study**

During the study, some staff members were hesitant to share information due to fear of losing their jobs whereas some had busy schedules and were unwilling to fill the questionnaire in the given time.

In addition, financial resources were a constraint as well due to movements from one bank to another for data collection that made the whole exercise costly.

## **5.6 areas of further study**

The study found out that credit risk management predicted a great variance in the financial performance. Other studies need to examine the extent to which an asset leasing affects the financial performance of financial institutions as it is one of the new products being promoted by these institutions.

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**QUESTIONNAIRE UGANDA CHRISTIAN UNIVERSITY**  
**FACULTY OF BUSINESS ADMINISTRATION DEPARTMENT OF ACCOUNTING AND**  
**FINANCE**

**A QUESTIONNAIRE FOR THE STAFF OF SELECTED FINANCIAL INSTITUTIONS.**

**Dear respondent,**

I am Kayaga Brenda Samalie a student at Uganda Christian University, pursuing a master's degree in business administration. As a requirement for the award of the degree, I am conducting a study on credit risk management and financial performance among financial institutions.

You have been selected to be one of the respondents to this study, kindly take part in the study by filling in this questionnaire. The information you will provide shall be used purely for academic purposes and will be treated with the utmost confidentiality.

**SECTION A**

**PERSONAL INFORMATION (TICK WHERE APPROPRIATE)**

1. Gender of the respondents

Male

Female

2. Age of the respondents

Between 20 and 29 years  between 40 and 49 years  50 years and above

Between 30 and 39 years

3. Position held in the organisation

Please specify.....

4. How long have you been working in this financial institution?

Less than a year  between 5 and 10 years   
Between 1 and 5 years  between 10 and 15 years  15 years and over

**SECTION B**

**Credit risk management**

5. Do you have a credit risk management system in your organisation?

Yes

No

6. If YES, how effective is it?

Highly effective  Effective  moderately effective   
Ineffective  Highly ineffective

7. What major benefit does the bank hope to obtain when it tries to make a widevariety of loans to different kinds of customers?

Move from specific risk exposure   
Guaranteed income

8. How is credit analysis determined?

Potential business with the company   
diversification nature of enquiry

Size of the enquiry

Others.....

....

9. Which is the main factor of consideration in credit analysis?

Historical financial analysis

Collateral assessment

Quality of management

cash flow projection

10. What do creditors generally prefer?

Tangible assets

collateral based on intangible assets

Depends upon amount involved   
creditworthiness

depends upon company's

11. Does your organisation appraise loan applicants?

Yes

NO

12. If yes, how often is the appraisal carried out?

For every loan applied for

Quarterly

Once a year

semi annually

13. Do loan officers make and submit in loan appraisal reports to the loancommittee?

.....

14. How effective is loan appraisal in management of credit risk?

.....

15. How many days after due date do you contact your clients?

.....

16. How is it done?

Telephone   
visits

Through guarantors

Personal

Email

Demand letters

17. If payment is not forthcoming, what action do you take?

.....What horizon is usually  
considered for probability of default?  1 month  3 months  6 months

18. How are payments recorded?

Receipt

Bank draft

Computer system

19. Is the credit control system fully integrated with in the accounting system?

Yes

No

20. Who is responsible for authorising loans to the applicants?

Loans committee

Loans officer/Manager

21. Do you have an authorised loan agreement?

Yes

No

22. Does your loan agreement have the following provisions?

	Yes	No
Time for payment		
Duration of the loan		
Interest charged		
How payments are made		
Instalment payment allowed		
When Instalments are due		
Number of instalments		
Total amount to be paid		
Remedies for defaults		
Remedies in case of grievances		

**SECTION C**

23. What is the level of agreement to the relationship between credit riskmanagement, and financial performance? (Please tick the appropriate)

**Strongly agree- 5, agree- 4, neutral- 3, disagree- 2, strongly disagree -1**

Statements	5	4	3	2	1
<b>B) Credit risk management</b>					
<b>3) Credit risk analysis</b>					
Loan appraisal is a viable strategy for managing credit.					
Creditors prefer collateral based on intangible assets as compared to tangible assets.					
Client appraisal considers the personality of the client seeking for credit or loans					
Effective loan appraisal enables the proper assessment of loan applicants thus facilitating the decisions on whether to offer the loan or not					
Aspects of collateral as security are considered while appraising clients					
Quality of loan assets is improved through loan appraisal					
Failure to asses client’s capacity to repay results into loan defaults.					
Available loan monitoring and collection procedures have assisted towards effective credit management thusreduces on the non-performing loans					
The use of customer credit application forms improves monitoring as well as credit management thus reducingon loan defaults.					

Loan approval decisions are made by the loans committee					
The enforcement of guarantee policy provides a chance of loan recovery in case of loan defaults					
Flexible repayment periods improve loan repayment					
The use of credit checks on regular basis enhances credit management					
<b>4) Credit risk control</b>					
Credit risk control has an effect on bank's operations.					
Regular reviews done during collection procedures improve the state of credit management					
Credit limits improve asset quality through diversification of loan portfolio					
Credit limits help in limiting the risk exposure of banks from many loan defaulters					
Penalty for late payment enhances customer commitment to loan repayment					
Loans committee involvement in making decisions regarding loans is essential in reducing loan defaults or credit risk					
Performance of loans is normally affected by the interests charged					
Terms and conditions reduce the risk of having non-performing loans in loan portfolio through providing remedies for loan defaulters					
Loan monitoring reduces on the chances of defaulting by the borrowers					
On loan application ,the applicant warrants that information provided is accurate, correct and given for					

purpose of obtaining the loan					
The person/s signing on the loan application is duly authorized by the applicant to apply for credit and this application on their behalf					
Credit extension to the loan applicant is authorized by the loan committee					
The duration for payment of the loan should be agreed on between the loan applicant and the bank.					
<b>FINANCIAL PERFORMANCE(Return on equity &amp; asset quality)</b>					
Active loan portfolio increases the bank's income available for lending out					
Large number of loan defaulters reduces the bank's income available for relending since money is still held by the defaulters.					
Higher asset quality ratio is expected to be more efficient in bank's earning profits					
Strong collection procedures improve the returns earned thus increasing the bank's profitability					
Compliance of management to financial regulations accelerates efficiency thus increasing the return on assets					
Use of monitoring and collection procedures increases return on assets through lowering the non-performing loans to total loans thus increasing profitability					
Return on assets tracks the asset- use over time and monitor the firm's performance in relation to industry performance.					
Loan portfolio helps to diversify the risk associated with non-performing loans					

Long term loans lower the bank's capacity to lend out to other loan applicants					
Monitoring of the loan portfolio is vital to ensure that loans don't default					
The value of the loan portfolio depends on the principal, interest owed and the average creditworthiness of the loans.					

THANK YOU