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**CREDIT RISK MANAGEMENT AND PROFITABILITY OF COMMERCIAL BANKS  
IN UGANDA  
A CASE OF CENTENARY BANK, PALLISA BRANCH**

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**A RESEARCH REPORT SUBMITTED TO THE FACULTY OF MANAGEMENT  
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UNIVERSITY**

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## **DECLARATION**

I, Aguti Flavia, hereby declare that the contents of this research work are my original work and that no other study has been conducted on the topic. To the best of my knowledge, this work has never been submitted before; in any other university or higher institution of learning for any degree or related qualification. In all cases where other people's ideas were quoted, they have been duly acknowledged by complete references.

Signature: .....

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## **APPROVAL**

This is to certify that this Research Proposal by Aguti Flavia on the topic “**credit risk management and the profitability of commercial banks in Uganda: a case of centenary bank pallisa branch**” has been under my supervision and now submitted for examination with my approval as the student’s University supervisor.

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## **DEDICATION**

This work is dedicated to the family of Ms Aguti Flavia for their moral support, encouragement and understanding. To all my friends, course mates, lecturers, not forgetting Mr Obba Samuel for his word of encouragement and the Almighty God for his unceasing blessings without which it is impossible to accomplish anything.

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## LIST OF ACRYONYMS

ALCO	Assets and Liability Committee
ASP	Annual supervision report
BOU	Bank of Uganda
CAR	Capital Adequacy Ratio
CB	Centenary Bank
CBR	Central Bank Rate
CBs	Commercial Banks
CRM	Credit risk management
EAC	East African Community
FSR	Financial Stability Report
GDP	Gross domestic product
HRC	Human Resource Committee
ICT	Information and Communication Technology
LCR	Liquidity coverage ratio
LLPR	Loan Loss Provision Ratio
MD	Managing Director
NIM	Net interest margin
NPLR	Non-performing Loan Ratio
PCL	Provision for Credit Loss
ROA	Return on Asset
ROE	Return on Equity
SCP	Structure-conduct-performance
SSA	Sub-Saharan Africa
TL	Total Loan

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## **ABSTRACT**

This study intended to find out the effect of credit risk management on profitability of commercial banks in Uganda, particularly centenary bank Pallisa branch. Credit risk management was viewed as three dimensional construct consisting of non-performing loans (NPL), capital adequacy ratios (CAR) and loan loss provisions (LLP). Profitability on the other hand was viewed in terms of ROA, ROE, and Net Profit Margin. The study used cross sectional research design and quantitative approach. Data were collected from 50 as a target population comprising of loan officers, administrators, branch supervisors and the accountants. Data was collected using a closed end questionnaire and statistical package of social science was used for analyzing data from which frequency tables, descriptive statistics, reliability, validity, correlation and regression results were obtained. The findings of the study revealed that there is a positive and significant effect between Non performing loan ratio and profitability; capital adequacy ratio profitability; and loan loss provision ratio and profitability. Therefore the study, recommends that in order for the commercial banks to improve on profitability the owner's particular centenary bank pallisa branch should depend on appropriate reducing non performing loan ratio, capital adequacy ratio and loan loss provision ratio.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

This study is about Credit risk management and profitability of commercial banks in Uganda, a case study of Centenary Bank Pallisa Branch. This chapter highlights the background of the study, statement of the problem, purpose of the study, research objectives, research questions, and scope of the study, significance of the study, conceptual framework, and definition of key terms.

### **1.1 Background of the Study**

Scholars globally agree that the stability and soundness of the banking sector is key to economic development of any economy (Alqisie, 2018). Apart from facilitating savings, commercial banks extend credit to institutions and individuals which can be used to facilitate production, acquire capital assets and facilitate trade (Abuya & Niyonsenga, 2017; Eton, Murezi, Mwosi, & Ogwel, 2018). Commercial banks (CBs) turn a profit through extending credit services to institutions and individuals (Driga, 2012). Despite of this, the profitability of commercial banks continue to decline.

For instance, in China, banks reported that their aggregate net profit fell by 9.4% in 1H20 to CNY1 trillion. All Fitch-rated Chinese commercial banks reported net profit declines due to higher expected credit losses and lower net interest margins, in their rated portfolio (GraceWu, 2020). A similar study conducted by across 47 commercial banks in Europe shows

In sub-Saharan Africa, despite extensive reforms in the financial sector during 1980s and 1990s with the view of improving access to financial services to private agencies, financial depth is very low averaging to 6.8% and not improving over the years (McDonald, 2007). Munyambonera (2013) adds that commercial banks profitability has been poor hitting as low as less than 19% as driven by low levels of private credit, high interest rate spreads, high levels of non-performing loans, poor asset quality, and operational inefficiencies. A similar condition is evident in Botswana where the banking sector managed to maintain stability, soundness and solvency of the banks despite the global financial crisis between 2007 and 2012 (Bank of Botswana, 2013). However, since 2011, banks profitability started declining from 26%

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