



**CREDIT MANAGEMENT PRACTICES AND LOAN PORTFLIO PERFORMANCE  
OF COMMERCIAL BANKS IN UGANDA: A CASE STUDY  
OF FINANCE TRUST BANK, IGANGA BRANCH**

MAYANJA CIRUS

BU/UP/2020/2712

[cirusmayanja@gmail.com](mailto:cirusmayanja@gmail.com)

A RESEARCH REPORT SUBMITTED TO FACULTY OF MANAGEMENT  
SCIENCES DEPARTMENT OF ECONOMICS AND MANAGEMENT  
IN PARTIAL FULLFILLMENT OF THE REQUIREMENT  
FOR THE AWARD OF A BACHELORS DEGREE  
IN BUSINESS ADMINISTRATION  
OF BUSITEMA UNIVERSITY

JANUARY 2024

## DECLARARTION

### DECLARATION

I, MAYANJA CIRUS declare that this report in its original format has never been submitted by anyone to Busitema University for any qualification.

Sign.......... Date 12<sup>th</sup>/01/2024


MAYANJA CIRUS

BU/UP/2020/2712

## APPROVAL

### APPROVAL

This research report is submitted to Busitema University-Faculty of Management Sciences for examination as a partial fulfillment for the award of Bachelors of Business Administration in Accounting and Finance with my approval as the internal supervisor.

Signature  Date 12/ Jan /24

MR. EMOJONG RONALD

University Supervisor

### **DEDICATION**

I would like to dedicate this report to my beloved family, classmates, friends and to my research supervisor Mr. Emojong Ronald for the professional skills, knowledge and guidance rendered to me during the whole process of research, may the almighty God bless you abundantly.

## **ACKNOWLEDGEMENT**

I wish to extend my heartfelt thanks to my research supervisor who offered me guidance to gain the required practical knowledge in research. Secondly, Special thanks goes to the department of Economics and management of Busitema University for availing me with the opportunity to go for practical training that helped me to shape my skills and techniques in accounting journey. May the almighty God bless them. Finally, I appreciate all my family and friends for their support and advise they gave me in writing this research report. May the lord almighty reward them abundantly?

## **LIST OF ABBREVIATIONS**

CDL    Controlled Digital Lending

FTB    Finance Trust Bank

FY    Financial Year

GHS    Globally Harmonized System of Classification

IMF    International monetary fund

CRB    Credit Reference Bureau

MFI's    Microfinance Deposit taking institutions

NPL'S    Non performing loans    ROE    Return on Equity    TZS    Tanzanian shillings

## THE LIST OF FIGURES

Figure 1. 1.9.1Conceptual framework.....	7
Figure 2.Table 3.1 showing sampling design.....	15
Figure 3.Table 4.1: Gender characteristics.....	19
Figure 4. A pie chart showing the education levels of the respondents .....	20
Figure 5. A bar graph showing the work experience of the respondents .....	21
Figure 6.Table 4.2 : Age of the respondents .....	22
Figure 7. Table 4.3: Table showing Correlations between variables .....	23
Figure 8.Table 4.4 Correlation between Debt collection policies and loan portfolio performance.....	24
Figure 9.Table: 4.5 Regression analysis on the effect of Debt collection policies on loan portfolio performance .....	25
Figure 10. Table 4.6 Correlation between Client Appraisal and loan portfolio performance.....	25
Figure 11.Table: 4.7Regression analysis on the effect of Client appraisal on loan portfolio performance	26
Figure 12.Table 4.8 Correlation between Lending policies and loan portfolio performance .....	26
Figure 13.Table: 4.7 Regression analysis on the effect of Lending policies on loan portfolio performance .....	27
Figure 14. Appendix III-work plan .....	39
Figure 15. Appendix IV proposal Budget .....	40
Figure 16. Appendix V Krejcie and Morgan Table .....	42

# TABLE OF CONTENT

## Contents

DECLARARTION .....	i
APPROVAL.....	ii
LIST OF ABBREVIATIONS .....	v
THE LIST OF FIGURES .....	vi
TABLE OF CONTENT .....	vii
ABSTRACT .....	x
CHAPTER ONE .....	1
1.0 Introduction .....	1
1.1Background .....	1
1.2 Statement of the problem .....	4
1.3 Purpose of the study .....	5
1.4.1 Specific objectives .....	5
1.5 Research questions .....	5
1.6.0 Scope of the study .....	5
1.6.1 Content scope .....	5
1.7 Time scope .....	5
1.8 Geographical scope.....	6
1.9 Significance of the study .....	6
1.9.1Conceptual framework .....	6
Figure 1. 1.9.1Conceptual framework.....	7
Definition of terms.....	8
CHAPTER TWO .....	9
LITERATURE REVIEW .....	9

2.0 Introduction .....	9
2.1. Theoretical Review.....	9
2.2. The effect of debt recovery on loan performance .....	9
2.3. The effect of Client appraisal on loan performance .....	10
2.4. The effect of lending policies on loan performance.....	12
CHAPTER THREE:.....	14
RESEARCH METHODOLOGY .....	14
3.0 Introduction:.....	14
3.1 Research Design.....	14
3.2 Study Population.....	14
3.3 Sample Size .....	14
3.4 Sampling method.....	15
3.5 Type of data .....	15
3.6 Data Collection methods.....	15
3.7 Data collection procedure.....	16
3.8 Data Analysis Techniques and Methods .....	16
3.9 Data Quality Control .....	17
3.9.1 Validity of the research instruments.....	17
3.9.2 Reliability of the research instruments .....	17
3.10 Ethical Considerations.....	17
CHAPTER FOUR .....	19
DATA ANALYSIS AND PRESENTATION OF FINDINGS.....	19
4.1 Introduction .....	19
4.2 Response rate .....	19
4.3 Demographic profile of the respondents.....	19
4.3.1 Gender .....	19

4.3.2 Education level of the respondents .....	20
4.3.3 Work Experience .....	21
4.3.4 Age .....	22
4.4 The findings on the relationship between the study variables.....	23
4.4.1 Correlation analysis.....	23
4.5 Regression analysis .....	24
4.5.1 The relationship between Debt collection policies on loan portfolio performance .....	24
4.5.2 The relationship between Client Appraisal and Loan Portfolio Performance .....	25
4.5.3 The relationship between Lending policies and loan portfolio performance .....	26
CHAPTER FIVE .....	27
DISCUSSION OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS.....	27
5.0. Introduction .....	27
5.1.0 Discussion of the Study Findings .....	27
5.1.1 The relationship between debt collection policies on loan portfolio performance .....	27
5.1.2The relationship between Client appraisal on loan portfolio performance .....	28
5.1.3The relationship between Lending policies on loan portfolio performance .....	28
5.2 Summary of Findings.....	29
5.3 Limitations of the study .....	29
5.4 Conclusions .....	29
APPENDICES.....	31
Appendix I reference .....	31
Appendice IIquestionnaire.....	35
Appendix III-work plan.....	39
Appendix IV proposal Budget.....	40
Appendix V Krejcie and Morgan Table .....	42

## **ABSTRACT**

The study was conducted to examine the effect of credit management practices on loan portfolio Performance of commercial banks mainly Finance Trust Bank Iganga Branch and it was based on three specific objectives; to determine the effect of debt collection on loan portfolio performance, to determine the effect of client appraisal on loan performance and to determine the effect of lending policy on loan portfolio performance. The study adopted cross-sectional research design, and quantitative approach to test the fundamental relationship and predictive power of the independent variable on dependent variable. Data was collected from a target population of 55 employees with reachable unit of analysis being 44 employees of Finance Trust Bank Uganda Iganga Branch, using simple random and purposive sampling techniques. Data was collected using a close ended questionnaire which was later entered in SPSS version 20 and analyzed using descriptive statistics that is frequencies, correlation and Regression results were obtained. The findings revealed that; all variables had a positive relationship on loan portfolio performance having lending policies and client appraisal ranking the highest and debt collection policies respectively. The study established that debt collection policies, client appraisal and lending policies predict loan portfolio performance in banks. In view of the above, the following conclusions can be drawn: commercial banks should pay much attention to debt collection policies characterized with collection enforcement and credit monitoring to enhance loan portfolio performance. Finance Trust bank should deploy lending policies branded with credit limits and lending terms to bolster loan portfolio performance and banks should implement robust risk management practices to assess and mitigate potential risks associated with lending

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

This study shows how credit management practices is managed and how it affects the loan portfolio performance of commercial banks in Uganda. It will contain of the background, statement of the problem, conceptual frame work, objectives of the study, purpose of the study and the scope

### **1.1Background**

Bank loans act as essential actors in the development of the economy, a good credit system helps a bank to mitigate the financial credit risk and also in management of cash flows with in the financial institution (Benjamin 2020), it improves the company's liquidity and improves late payments (Trevipay 2022) credit benefits the citizens in different ways, according to (Nicole 2019), loans helps individuals to make large purchase like those of capital assets, and also maintain ownership in the business. Despite of the fact that credit benefits both the financial institutions and the citizens there are low levels of loan performance in the economy

According to (WGBC, 2021) credit risk arises from the potential that a borrower or counterparty to perform on an obligation. The number of non performing loans continued to increase in the FY 2022 \$2.5 trillion to \$2.8 trillion. Commercial banks in USA registered a loss of \$17 billion as bad debts in FY 2022 (call report and FY-9C). In Brazil, banks registered an increase in the NPL from 6.3% in 2020 to 12.5% by April 2023 will fail (Rob Dwyer April 2023). According to the World Bank analysis Afghanistan, had an increase of 8.9% (FY 2018), Fiji had 8.5% (FY 2021), and Iraq had an increase of 16.2% (FY 2019) of non-performing loans. In Europe, Switzerland, France, Italy and Ireland marked the most countries which were affected by credit risk and with increased number of none performing loans in the year 2021, over 23.2 billion where registered as write-offs (Debashis D, 2021), France's four main banks BNP Paribas,

## APPENDICES

### Appendix I reference

Ahmed, S. F., & Malik, Q. A. (2015). Credit risk management and loan performance: Empirical investigation of micro finance banks of Pakistan. *International journal of economics and financial issues*, 5(2), 574-579.

Aliija, R., & Muhangi, B. W. (2017). The effect of loan appraisal process management on credit performance in microfinance institutions (MFIs): A case of MFIs in Uganda. *International Journal of Science and Research (IJSR)*, 6(4), 2283-2289.

*bank of uganda annual report*. (2021).

(bank of uganda annual report, 2021)

(national central bank of south africa, 2023)

Bank, W. (2016). *World Bank Annual Report*.

*Central Bank of Kenya*. (2021).

Creswell, J. W. (2014). *A concise introduction to mixed methods research*. SAGE publications.

- Dunyoh, M., Ankamah, E. T., & Kosipa, S. J. K. (2022). The impact of credit risk on financial performance: Evidence from rural and community banks in Ghana. *Hybrid Journal of Business and Finance*, 3(1).
- Enoch, E. Y., Digil, A. M., & Arabo, U. A. (2021). Evaluating the Effect of Credit Collection Policy on Portfolio Quality of Micro-Finance Bank. *arXiv preprint arXiv:2105.10991*.
- Epstein, J. I., Allsbrook Jr, W. C., Amin, M. B., Egevad, L. L., & ISUP Grading Committee. (2005). The 2005 International Society of Urological Pathology (ISUP) consensus conference on Gleason grading of prostatic carcinoma. *The American journal of surgical pathology*, 29(9), 1228-1242.
- FTB. (2021). *Finance Trust Bank Annual Report*.
- Karumba, M., & Wafula, M. (2012). *Collateral lending: Are there alternatives for the Kenyan banking industry?* (No. 3). KBA Centre for Research on Financial Markets and Policy Working Paper Series.
- Kothari, C. R. (2004). *Research methodology: Methods and techniques*. New Age International.
- Mot, H. O., Masinde, J. S., Mugenda, N. G., & Sindani, M. N. (2012). Effectiveness of Credit Management System on Loan Performance: Empirical Evidence from Micro Finance Sector in Kenya.
- Muthama, K., & Warui, F. (2021). Influence of lending terms on loan performance of microfinance institutions in Kisii County (Case Study; Kenya Women Microfinance Bank). *International Academic Journal of Economics and Finance*, 3 (7), 21, 3(7), 21-44.
- Muthoni, M. I., Mwangi, L. W., & Muathe, S. M. (2020). Credit management practices and loan performance: empirical evidence from commercial banks in Kenya. *International Journal of Current Aspects in Finance, Banking and Accounting*, 2(1), 51-63.
- national central bank of south africa*. (2023).

Ndero, S. W., Wepukhulu, J. M., & Bogonko, J. B. (2019). Relationship between credit appraisal and loan performance by commercial banks in uasingishu county, Kenya. *European Journal of Economic and Financial Research*.

Ngonyani, D. B., & Mapesa, H. J. (2019). The effects of credit collection policy on portfolio at risk of microfinance institutions in Tanzania.

Njeru, M., Mohhamed, S., & Wachira, M. A. (2017). Effectiveness of credit management system on loan performance of commercial banks in Kenya. *International Journal of finance and accounting*, 2(1), 106-122.

Olabamiji, O., & Michael, O. (2018). Credit management practices and bank performance: Evidence from First Bank. *South Asian Journal of Social Studies and Economics*, 1(1), 1-10.

Ongili, E. A. (2018). *Financial Risk Management and Financial Performance of Microfinance Institutions in Nairobi County, Kenya* (Doctoral dissertation, university of nairobi).

Oretha, S. Z. (2012). *The relationship between credit risk management practices and financial performance of commercial banks in Liberia* (Doctoral dissertation).

(WMugo Fridah, 2003) Population size

Rachman, R. A., Kadarusman, Y. B., Anggriono, K., & Setiadi, R. (2018). Bank-specific factors affecting non-performing loans in developing countries: Case study of Indonesia. *The Journal of Asian Finance, Economics and Business (JAFEB)*, 5(2), 35-42.

Rahmanullah, R. A. S. A. (2021). The effects of credit risk on the profitability of commercial banks in Afghanistan. *The Journal of Asian Finance, Economics and Business*, 8(7), 477-489.

Scott-Clayton, J., & Zafar, B. (2019). Financial aid, debt management, and socioeconomic outcomes: Post-college effects of merit-based aid. *Journal of Public Economics*, 170, 68-82.

Shieler, B., Emenike, K. O., & Amu, C. U. (2017). Credit Risk Management and Financial Performance of Microfinance Institutions in Kampala, Uganda. *Journal of Banking and Financial Dynamics*, 1, 29-35.

WGBC. (2021). Annual Report 20-21. *Wgbc*, 0(0), 260.

Wilberforce, B., Robert, M., & Atwiine, D. W. (2021). The Effects of Credit Terms on Loan Performance of SACCOS in Mbarara City.

Yatim, N. M., Shaaban, A., Dimin, M. F., & Yusof, F. (2015). Statistical evaluation of the production of urea fertilizer-multiwalled carbon nanotubes using plackettburman experimental design. *Procedia-Social and Behavioral Sciences*, 195, 315-323.

Yusuf Enoch, E., Abubakar Arabo, U., & Mahmud Digil, A. (2021). The Effect of Client Appraisal on the Efficiency of Micro Finance Bank. *arXiv e-prints*, arXiv-2106.