CREDIT MANAGEMENT AND LOAN PORTFOLIO PERFORMANCE IN FINANCIAL INSTITUTIONS IN UGANDA, A CASE STUDY OF CENTINARY BANK IN BUGIRI DISTRICT

BY

WANDERA JACOB

BU/UP/2023/1362

A RESEARH REPORT SUBMITTED TO FACULTY OF MANAGEMENT SCIENCES

IN PARTIAL FULFILMENT FOR THE REQUIREMENTOF THE

AWARD OF A BACHELORS DEGREE IN BUSINESS

ADMINISTRATION OF BUSITEMA

UNIVERSIRTY

AUGUST 2025

DECLARATION

I WANDERA JACOB do declare that this research report is my own work which has never been submitted for examination in this university for academic qualification.

Student Name: WANDERA JACOB

Registration No: BU/UP/2023/1362

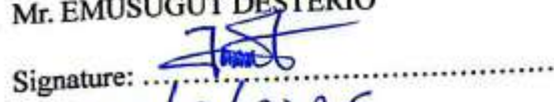
Signature

Date 15TH - AUGUST - 2025

APPROVAL

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

Mr. EMUSUGUT DESTERIO

Signature: 

Date: 15/8/2025

DEDICATION

This work is dedicated to the family of Mr. Wandera Jacob, especially my mother Ms. Akello Florence, and to my wife Ms. Cecilia Susan for their moral support, encouragement and understanding. To all my friends, course mates, lecturers, and the Almighty God for his continuous blessings without which it is impossible to ensure the proposal submission a reality.

ACKNOWLEDGEMENT

I am grateful to the almighty God that; he has given me the gift of life, as well to my parents, wife and children and friends, who gave me opportunity to be in school and guided me throughout this study and writing of this report.

My heartfelt thanks go to my parents Ms. Akello Florence who generously provided me with financial, emotional and social support while carrying out this study and throughout my entire course.

Great thanks go to my supervisor Mr. Emusugut Desterio who guided me in the right direction from the beginning till the end of this proposal and he has greatly contributed in making a difference in my performance.

Superficial thanks go to all Busitema University lecturers who guided us throughout this process.

I am also indebted to all my BBW classmates for the support that made my bachelor's program successful Journey. May God grant unending blessings and propel each and every one of you to serve him in your entire life.

TABLE OF CONTENTS

DECLARATION i
APPROVAL ii
DEDICATION iii
ACKNOWLEDGEMENTS iv
LIST OF TABLES viii
LIST OF FIGURES ix
LIST OF ACRONYMS x
DEFINITION OF KEY TERMS xi
ABSTRACT xii
CHAPTER ONE 1
INTRODUCTION 1
1.0 Introduction 1
1.1 Background of the Study 1
1.2 Problem Statement 3
1.3 Purpose of the Study 3
1.4. Research Objectives 3
1.5 Research Questions 4
1.6.1 Study Scope 4
1.6.2 Geographical Scope 4
1.6.3 Time Scope 4
1.6.4 Content scope 4
1.7 Significance of the Study 4
CHAPTER TWO 7
LITERATURE REVIEW 7
2.0 Introduction 7
2.1 Theoretical Review 7
2.2.0 Empirical Review 8
2.2.1 Credit Approval and Loan Portfolio Performance 8
2.2.2 Credit Appraisal and Loan Portfolio Performance 9
2.2.3 Credit Documentation and Loan Portfolio Performance 10
2.3. Gaps in the Literature 11
CHAPTER THREE 11

RESEARCH METHODOLOGY 12
3.0 Introduction 12
3.1 Research Design 12
3.2 Study Population 12
3.3 Sample Size 12
3.4 Sampling Method 13
3.5 Type and Sources of Data 13
3.6 Data Collection Method 13
3.7 Data Analysis Procedure 13
3.8 Data Analysis Techniques and Methods 13
3.9 Reliability and Validity of Research Instrument 14
3.10 Ethical Consideration 14
CHAPTER FOUR 16
DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS 16
4.0 Introduction 16
4.1 Response Rate 16
4.2 Demographic Characteristics 16
4.2.1 Gender of Respondents 16
4.2.2 Age Characteristics 17
4.2.3 Education Level 17
4.2.4 Years served in Centenary bank 18
4.3 Pearson's Correlation Analysis 18
4.3.1 Credit Approval and Loan Portfolio Performance 19
4.3.2 Credit Appraisal and Loan Portfolio Performance 19
4.3.3 Credit Documentation and Loan Portfolio Performance. 19
4.4 Regression Analysis 19
4.4.1 Credit Approval and Loan Portfolio Performance. 19
4.4.2 Credit Appraisal and Loan Portfolio Performance. 20
4.4.3 Credit Documentation and Loan Portfolio Performance. 21
CHAPTER FIVE: 22
DISCUSSION OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS 22
5.0. Introduction 22

5.1.0 Discussion of the Study Findings 22
5.1.1 Credit Approval and Loan Portfolio Performance. 22
5.1.2 Credit Appraisal and Loan Portfolio Performance 23
5.1.3 Credit Documentation and Loan Portfolio Performance. 25
5.2. Conclusions 26
5.3 Recommendations 27
5.4. Limitations of the Study. 27
5.5. Areas of Further Research 28
APPENDICES 32
Appendix I: Letter Of Introduction 32
Appendix II: Questionnaire 33
Appendix III: Research work plan 38
Appendix IV: Research Budget 39

LIST OF TABLES

Table 3.1 Showing Reliability 14
Table 4.1 Showing Gender of Respondents 16
Table 4.2 Showing Age Characteristics 17
Table 4.3 Showing Education Level 17
Table 4.4 Showing Years served in the Local Government 18
Table 4.5 Showing Correlation analysis 18
Table 4.6 Showing credit approval and loan portfolio performance 19
Table 4.7 Showing credit appraisal and loan portfolio performance 20
Table 4.8 Showing credit documentation and loan portfolio performance. 21

LIST OF FIGURES

Figure 1 Conceptual framework of credit management on loan portfolio performance 5

LIST OF ACRONYMS

NPLs:	Non-Performance Loans
CBN:	Central Bank of Nigeria
EU:	European Union
PAR:	Portfolio at Risk
SACCO:	Savings and Credit Cooperative Organization.

DEFINITION OF KEY TERMS

Credit Management refers to the way banks lend out money after taking great consideration to avoid losing the money through bad debts (Mafumba, 2020).

Loan portfolio performance refers to rate of return of an investment in various loan products (Krestlow,1992).

Credit approval is a critical component of credit management that significantly affects the quality and performance of a financial institution’s loan portfolio. It involves evaluating loan applications based on borrower credibility, repayment capacity, and compliance with internal lending policies (Mwangi & Muathe, 2020).

Credit appraisal is a fundamental process in credit management that involves assessing a borrower's financial health, repayment capacity, business viability, and collateral adequacy before loan approval (Mwangi & Muathe, 2020).

Credit documentation is a critical element of credit management that involves the preparation, verification, and storage of all relevant records related to a loan agreement (Kiiru, 2021)

ABSTRACT

The study aimed to establish the effect of credit management on loan portfolio performance in Centenary Bank Bugiri Branch. It specifically examined the effect of credit approval on loan portfolio performance, analyzed the effect of credit appraisal on loan portfolio performance and examine the effect of credit documentation on loan portfolio performance. The study adopted a quantitative approach and collected primary data in a cross-sectional. The sample size for this study was 52 which was determined using the table of Krejcie and Morgan. A questionnaire served as the research instrument. Quantitative data collected were coded into Statistical Package for Social Sciences (SPSS) version 22, cross-checked for entry errors, and analyzed. Regression analysis was used to test the relationship between dimensions of the independent variable and the dependent variable. The study was steered by agency theory by Jensen and Meckling (1976). The study found positive and statistically significant effect credit management (credit approval, credit appraisal and credit documentation) on loan portfolio performance. credit appraisal had a stronger significant effect on loan portfolio performance. The study concludes that loan portfolio performance in financial institutions is influenced by credit approval, credit appraisal and credit documentation. It recommends that management reinforce their credit approval processes by emphasizing creditworthiness assessments, setting appropriate credit limits, and ensuring strict adherence to internal lending policies, adopt comprehensive credit appraisal practices and ensure that all client data and loan details are meticulously recorded, comply with regulatory standards, and are securely stored for easy retrieval.

CHAPTER ONE
INTRODUCTION

1.0 Introduction

This chapter presents the background of the study, statement of the problem, the purpose of the study, research objectives, research questions, and the scope of the study, the significance of the study, the conceptual framework and the definitions of the terms.

1.1 Background of the Study

Kiplimo and Kalio (2014) defined loan portfolio performance as the total amount of money given out in different loan products to different types of borrowers in form of salary loans, group guaranteed loans, individual loans and corporate loans. Loan portfolio performance is the backbone of financial stability and profitability in lending institution (Aboagye & Otchere, 2021). A well-performing loan portfolio ensures consistent cash flows, reduced credit losses, and sustained investor confidence (Kariuki, 2020). Conversely, poor portfolio performance indicated by rising non-performing loans can threaten institutional liquidity, capital adequacy, and long-term viability(Kiiru, 2021). In today's dynamic financial environment, enhancing loan portfolio quality is no longer optional but a strategic necessity for growth and competitiveness (Musyoki, 2022). Despite of the above relevance, loan portfolio performance is still poor in most financial institutions.

Globally, European Union (EU) as of Q4 2023, the average non-performing loan (NPL) ratio in the euro area banks rose to 2.3%, with certain countries like Greece and Italy reporting NPL ratios exceeding 6%, driven by inflationary pressure and rising interest rates (European Banking Authority, 2024). Similarly in 2023, United States commercial banks experienced a 30% increase in delinquent loans, particularly in the commercial real estate sector, with total non-performing assets reaching $160 billion, the highest since 2013 (Federal Reserve, 2024). Furthermore the Bank of England reported that as of mid-2023, the rate of credit card and personal loan defaults had risen by 25% year-over-year, attributed to household financial stress and higher borrowing costs (Bank of England, 2023).

In Africa, Nigeria's average loan recovery rate for commercial banks stood at 58% in 2023, significantly below the African Development Bank's target of 75%, with poor collateral enforcement cited as a major challenge (Central Bank of Nigeria [CBN], 2023).In the same way

REFERENCES

Aboagye, A. Q., & Otchere, I. (2021). Credit risk management and bank loan portfolio performance in Ghana. African Journal of Finance, 8(2), 45–62.

Atuhairwe, A., & Zikusooka, E. (2023). Risk exposure and financial performance on the banking industry in Uganda. A case of centenary bank in Rubirizi District. Metropolitan Journal of Economics and Business, 2(8), 725–733.

Bank of England. (2023). Financial Stability Report July 2023. https://www.bankofengland.co.uk

Bank of Ghana. (2023). Monetary Policy Report – December 2023. https://www.bog.gov.gh

Bank of Tanzania. (2023). Financial Stability Report 2022/2023. https://www.bot.go.tz

Bank of Uganda. (2023). Annual Supervision Report 2023. https://www.bou.or.ug

Bwoch, G. (2024). Annual results for the year Ended 31 December 2023. Centenary Bank.

Central Bank of Nigeria [CBN]. (2023). Annual Economic Report 2023. Central Bank of Nigeria. https://www.cbn.gov.ng

Daily, C. M., Dalton, D. R., & Cannella, A. A. (2003). Corporate governance: Decades of dialogue and data. Academy of Management Review, 28(3), 371–382.

Dian, N., Fatima, A., Wildaniyahtul, J., Moh. Yudi, M., & Nelia, F. (2024). Utilization Of Accounting Information Systems, Human Resource Competencies, Government Accounting Standards On The Quality Of Local Government Financial Statements. Journal Of Economics, Technology and Business, 3(4). https://doi.org/10.57185/jetbis.v3i4.100

Eisenhardt, K. M. (1989). Agency theory: An assessment and review. Academy of Management Review, 14(1), 57–74.

European Banking Authority, E. (2024). Risk Assessment of the European Banking System. https://www.eba.europa.eu

Federal Reserve. (2024). Quarterly Banking Profile. https://www.federalreserve.gov

Hadi., S., Asmony, T., & Busaini, B. (2017). Quality of work in unit financial statements of local government: Factors' affect and the implications of financial accountability. (Studies on the Local Government Unit in the District of Central Lombok). http://jurnal.stie-mandala.ac.id/index.php/eproceeding/article/view/149

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

Kariuki, D. (2021). Effect of credit approval policies on loan portfolio performance in savings and credit cooperatives in Kenya. Journal of Economics and Finance, 6(2), 78–86.

Kariuki, J. M. (2020). Credit management and financial performance of microfinance institutions in Kenya. Journal of Finance and Accounting, 4(1), 13-27.

Kiiru, D. N. (2021). Effect of credit appraisal on loan repayment in SACCOs. International Journal of Business Research, 5(3), 58–67.

Kiplimo, K. S., & Kalio, A. M. (2014). Influence of Credit Risk Management Practices on Loan Performance of Microfinance Institutions in Baringo County,. International Journal of Science and Research, 3(10), 2260–2267.

Kyamutetera, M. (2025). Central Bank sets new profit record, sharpens forcus on digital and rural growth. Kampala Twon.

Musyoki, L. M. (2022). Credit documentation and performance of commercial banks in Kenya. Journal of Business and Management, 10(2), 24-36.

Mwangi, M., & Muathe, S. (2020). The influence of credit approval process on the loan performance of banks in Kenya. Journal of Banking and Finance,6(1), 19–34.

Namatovu, J. (2025). Centenary Bank Beats All Odds to Post Shs 342.3Bn Profit in 2024. Chimreports.

Ninsiima, S., & Zikusooka, E. (2024). The Impact Of Loan Defaults On Profitability Of Financial Institutions. A Case Study Of Centenary Bank. Metropolitan International University, 3(6), 470–482.

Ross, S. A. (1973). The economic theory of agency: The principal's problem. The American Economic Review, 63(2), 134–139.

SASRA. (2023). Annual SACCO Supervision Report 2022/23. Sacco Societies Regulatory Authority (SASRA). https://www.sasra.go.ke

Shukla, J. (2017). Construction Projects: A Case of Selected Construction Firms in. October 2017.

South African Reserve Bank. (2023). Banking Sector Overview 2023. https://www.resbank.co.za

Tumwine, F., Byarugaba, D. K., & Kyeyune, A. R. (2021). Credit management practices and loan performance of commercial banks in Uganda. African Journal of Business Management, 15(6), 131–140.

Wandera, S. (2017). The effect of public sector financial reforms on service delivery in Uganda‟s local governments using a case study of Busia District Local Government (BDLG). Public Sector Financial Management, Accounting and Financial Management.