



**BUSITEMA
UNIVERSITY**
Pursuing Excellence

P.O. Box 236, Tororo, Uganda
Tel: +256-45-4448834
Fax: +256-454438517
Email: info@adm.busitema.ac.ug
Website: www.busitema.ac.ug

**CREDIT MANAGEMENT PRACTICES, LOAN PORTFOLIO QUALITY, AND
PROFITABILITY OF COMMERCIAL BANKS IN UGANDA**

BY

WANSOLO SAMUEL

BU/GS21/MBA/11

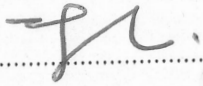
**A REPORT SUBMITTED TO THE DIRECTORATE OF GRADUATE STUDIES,
RESEARCH AND INNOVATION IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF MASTERS IN BUSINESS
ADMINISTRATION DEGREE (FINANCE OPTION)
OF BUSITEMA UNIVERSITY.**

AUGUST, 2025

DECLARATION

I, Wansolo Samuel, affirm that this research project is my own and has not been given to any college or university for a degree or other academic award. Throughout the work, I have acknowledged all the sources used in the compilation.

Signature.....



Date

23/10/2025

WANSOLO SAMUEL

BU/GS21/MBA/11

APPROVAL

This research dissertation has been submitted with our approval as university supervisors.

Signature of Supervisor  Date of Approval 23/10/2025

1. DR. Namono Rehema, PhD

Signature of Supervisor  Date of Approval 24/10/2025

2. DR. Watema Joash, PhD

DEDICATION

To my beloved Mother, I dedicate this report for the great care and love shown to me during the course and to my sisters in compensation for the brotherly love missed and as a sign of encouraging them to study passed this level of education.

ACKNOWLEDGEMENT

Thanks to Almighty Father for His power, which has allowed me to achieve this important milestone. This research wouldn't have been feasible without the help, encouragement, and counsel of numerous persons.

I express my profound thanks towards my supervisors, Dr. Namono Rehema, and Dr. watema for tremendous direction, critical input, and steadfast support throughout this endeavor. Your guidance was important in influencing this study.

I truly express my gratitude to my friends and coworkers who supported me throughout this arduous trip, providing encouragement and assistance as required. As well, I appreciate the management of University of Busitema for support during my academic path.

Ultimately, all honor belong to God, whose grace has upheld me during this undertaking.

TABLE OF CONTENTS

DECLARATION	i
APPROVAL	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
LIST OF FIGURES	ix
LIST OF ACRONYMS	x
CHAPTER ONE	1
1.0 Introduction.....	1
1.1 Study Background.....	1
1.2 Statement of the Problem.....	4
1.3 Study Purpose	4
1.4 Specific Study Objectives	6
1.5 Study Hypothesis	6
1.6 Study scope	6
1.7 Significances of the Study	7
1.8 Conceptual Framework.....	8
CHAPTER TWO	10
LITERATURE REVIEW	10
2.0 Introduction.....	10

2.1 Theoretical Review	10
2.1.1. Modern Portfolio Theory (MPT, 1952)	10
2.2 Conceptualization of Variables	12
2.2.1 Loan portfolio quality (LPQ)	12
2.2.2 Credit management practices	13
2.2.3 Profitability	15
2.3 Empirical Literature Review	15
2.3.1 Credit Management Practices and Profitability	16
2.3.2 Loan Portfolio Quality and Profitability	18
2.3.3 Credit Management Practice, Loan Portfolio Quality, and Profitability	20
2.4 Reviewed gaps in Literature	22
CHAPTER THREE	23
METHODOLOGY	23
3.1 Introduction	23
3.2 Research design	23
3.3 Target Population	24
3.4 Determination of sample size	24
3.5 Unit of enquiry and analysis	24
3.6 Sampling Technique	25
3.7 Measurement of Variables	25

3.8 Research Instruments	26
3.9 Reliability and validity	26
3.10 Analysis and presentation of data	27
3.11 Ethical Considerations	28
CHAPTER FOUR.....	29
ANALYSIS AND INTERPRETATION OF FINDINGS	29
4.0 Introduction.....	29
4.1 Response rate	29
4.2 Respondent's Profile	29
4.3 The demographic profile of Bank's age.....	31
4.4 Correlation analysis	35
4.5 Hierarchical Regression analysis	43
4.6 Testing for multiple regression	45
CHAPTER FIVE	47
DISCUSSION, CONCLUSION AND RECOMMENDATIONS.....	47
5.0 Introduction.....	47
5.1 Discussion of findings.....	48
5.1.1 Credit management practices and profitability	48
5.1.2 Loan portfolio quality and profitability	50
5.1.3 Credit management practices, loans portfolio quality and profitability	53

5.2 Conclusion	55
5.3 Study Recommendations	56
5.4 Study limitations	57
5.5 Areas of further research.....	58
2 REFERENCES	59
3 Appendix I: Questionnaire.....	68
4 Appendix II: List of Licensed Supervised Commercial Banks in Uganda (Tier 1)	76

LIST OF FIGURES

Figure 1: Conceptual framework	8
---	----------

LIST OF ACRONYMS

ATR:	Asset Turnover Ratio
CAR:	Capital Adequacy Ratio
DR:	Default Rate
IMF:	International monetary fund
LAR:	Liquid Asset Ratio (LAR)
LLP:	Loan loss provisioning
MPT:	modern portfolio theory

ABSTRACT

Bank profitability is widely accepted measure of financial stability of banks worldwide. It enables banks to build capital reserves which can be used to absorb losses during economic recessions. The current study sought to establish the influence of credit management practices and loan portfolio quality on the profitability of commercial banks in Uganda. The specific objectives of the study were; to establish the effect of credit management practices on commercial banks' profitability, to examine the effect of Loan portfolio quality on commercial banks' profitability and to assess the combined effect of credit management practices and Loan portfolio quality on commercial banks' profitability in Uganda. The study was anchored on the Modern Portfolio Theory to explain the hypothetical relationship between the study variables. A cross-sectional research design with a quantitative approach was adopted. Data were collected from 133 respondents drawn from 21 commercial banks licensed by the Bank of Uganda through structured questionnaires. Statistical analysis was conducted using SPSS Version 22, employing descriptive statistics, correlation, hierarchical regression, and multiple regression analyses. The findings revealed that credit management practices significantly enhanced profitability. Similarly, loan portfolio quality had a strong positive and significant effect on profitability. The combined effect of credit management practices and loan portfolio quality on profitability was also positive and statistically significant, implying that improvements in both areas jointly contribute to higher bank profitability. These results affirm that sound credit governance and a high-quality loan portfolio are critical drivers of profitability in Uganda's commercial banking sector. The study concludes that profitability in commercial banks largely depends on the strength of their credit management systems and the quality of their loan portfolios. The study recommends that banks should strengthen their credit appraisal, documentation, and approval processes while improving

monitoring mechanisms to sustain loan quality. Regulators such as the Bank of Uganda should continue enforcing prudent credit management frameworks to enhance financial stability and sustainable profitability.

REFERENCES

- Abel, S., Chomunorwa, D., Mokumako, T., Mukarati, J., & Roux, P. Le. (2025). *Modelling Loan Defaults by Sugarcane Farmers*. 15(3), 262–271.
- Abubakar, A. (2021). A Nexus between Capital Adequacy and Profitability in the Nigerian Deposit Money Banks. *Asian Journal of Economics, Business and Accounting*, 21(8), 88–108. <https://doi.org/10.9734/ajeba/2021/v21i830414>
- Adeoti, & Akinroluyo, B. I. (2022). Capital Adequacy and Deposit Money Bank's Return on Asset (Roa) in Nigeria. *Finance & Accounting Research Journal*, 4(1), 1–13. <https://doi.org/10.51594/farj.v4i1.284>
- Adeyinka, S., & Olalekan, A. (2013). Capital Adequacy and Banks' Profitability: an Empirical Evidence From Nigeria. *American International Journal of Contemporary Research*, 3(10), 87–93.
- Agaba, F., Tamwesigire, C., & Eton, M. (2022). Credit Risk Management Practices and Loan Performance of Commercial Banks in Uganda. *Business Perspective Review*, 4(1), 16–28. <https://doi.org/10.38157/bpr.v4i1.394>
- Agasha, E., Monamesti, G., & Feela, T. (2020). Loan Portfolio Quality of Microfinance Institutions in Uganda: A Qualitative Assessment. *Journal of Financial Risk Management*, 09(02), 155–177. <https://doi.org/10.4236/jfrm.2020.92009>
- Alhadab, M., & Alsahawneh, S. (2016). Loan Loss Provision and the Profitability of Commercial Banks: Evidence from Jordan. *International Journal of Business and Management*, 11(12), 242. <https://doi.org/10.5539/ijbm.v11n12p242>

- Aliu, M., & Çollaku, B. (2021). Impact of Non-Performing Loans on Bank s Profitability: Empirical Evidence from Commercial Banks in Kosovo. *Journal of Accounting Finance and Auditing Studies (JAFAS)*, 7(3), 226–242. <https://doi.org/10.32602/jafas.2021.027>
- Altmann, J. (1974). Observational study of behavior: sampling methods. *Behaviour*, 49(3–4), 227–266.
- Anggriani, R., & Muniarty, P. (2020). The Effect of Non-Performing Loans (NPL) and Capital Adequacy Ratio (CAR) on Profitability (ROA) at PT. Bank Central Asia (BCA), TBK. *Ilomata International Journal of Management*, 1(3), 121–126. <https://www.ilomata.org/index.php/ijjm>
- Arif, H., & Usman, Z. (2019). Impact of Credit Risk Management Practices on the Profitability , A Case of Impact of Credit Risk Management Practices on the Profitability , A Case of Askari Bank Limited. *Reseaerch Journal of Finance and Accounting*, 8(January 2017).
- Audrey, A. (2024). *Cash Flow Management And Its Impact On Financial Performance Of Petroleum Companies In Uganda. December.*
- Balami, S., & Chalise, D. R. (2023). Capital Adequacy and its Influence on Bank Profitability in Nepal. *International Journal of Silkroad Institute of Research and Training*, 1(2), 106–114. <https://doi.org/10.3126/ijst.v1i2.61771>
- Bank of Uganda. (2023). *BOU Annual-Report-2023-for-Publish.*
- Bank of Uganda. (2024). *Quarterly Financial Stability Review: June 2024.*
- Bank of Uganda. (2025). *Annual Supervision Report 2025.*

Bank of Uganda. (2025, March). *Quarterly Financial Stability Review March 2025*. Bank of Uganda.

Batsinda, G., & Shukla, J. (2019). Inflation and Profitability of Commercial Banks in Rwanda: A Case Study of Bank of Kigali. *International Journal of Business and Management*, 14(10), 35. <https://doi.org/10.5539/ijbm.v14n10p35>

Beck, T., Cull, R., Mare, D. S., Valenzuela, P., & Mare, D. S. (2023). Banking in Africa: Opportunities and Challenges in Volatile Times. In *Banking in Africa: Opportunities and Challenges in Volatile Times* (Issue December). <https://doi.org/10.1596/1813-9450-10632>

Biswas, G. K., & Mondal, L. (2023). A Study on Relationship between Capital Adequacy Ratio (CAR) and Profitability of Islamic Banks in Bangladesh. *European Journal of Development Studies*, 3(5), 62–66. <https://doi.org/10.24018/ejdevelop.2023.3.5.302>

Bougie, R., & Sekaran, U. (2019). *Research methods for business: A skill building approach*. John Wiley & Sons.

Business Focus. (2024a, October 15). *Banks swim in Shs1.6 trillion profit: Top five control 74.46% of industry profits*.

Business Focus. (2024b, July 2). *Uganda's banks with biggest loan defaulters named as customers fail to repay Shs1 trillion*.

Creswell, J. W. (2014). Book Review Creswell, J. W. (2014). *Research Design: Qualitative,*

- Quantitative and Mixed Methods Approaches (4th ed.). In *English Language Teaching* (Vol. 12, Issue 5). <https://doi.org/10.5539/elt.v12n5p40>
- Creswell, J. W., & Poth, C. N. (2018). Qualitative Inquiry and Research Design. Choosing Among Five Approaches. In *Sage publications* (Issue June).
- Daily Monitor. (2024, June 28). *Non-performing loans drop but credit extension remains subdued*.
- Diya, L. (2022). The Impact of Audit Culture and Internal Control Systems on Audit Quality: The Case of Lebanese Banks. *European Journal of Business and Management Research*, 7(5), 255–261. <https://doi.org/10.24018/ejbmr.2022.7.5.1675>
- Do, H. L., Ngo, T. X., & Phung, Q. A. (2020). The effect of non-performing loans on profitability of commercial banks: Case of Vietnam. *Accounting*, 6(3), 373–386. <https://doi.org/10.5267/j.ac.2020.1.001>
- Elemu, A. (2021). Credit Management Practices, Loan Repayment Management And Profitability Of Commercial Banks' Branches In Uganda. *Graduate Studies And Research of Makerere University*, 10(2021), 1–16.
- Engelmann, B., & Pham, H. (2020). Measuring the performance of bank loans under basel II/III and IFRS 9/CECL. *Risks*, 8(3), 1–21. <https://doi.org/10.3390/risks8030093>
- Ernst & Young (EY). (2024). *Global banking outlook 2025*. EY
- Fleming, J., & Zegwaard, K. E. (2018). Methodologies, methods and ethical considerations for conducting research in work-integrated learning. *International Journal of Work-Integrated Learning*, 19(3), 205–213.

- Gerring, J. (2007). *Case study research; Principles and practices* (1st ed.). Cambridge University Press.
- Hoyle, R. (2018). "Analysis Techniques for Small Population Research." In *Improving Health Research on Small Populations: Proceedings of a Workshop*. Washington, DC: National Academies of Sciences, Engineering, and Medicine.
- International Monetary Fund. (2025). *Annual Report 2025*. International Monetary Fund. [I](#)
- International Monetary Fund. (2025, October 14). *Global Financial Stability Report, October 2025: Shifting Ground beneath the Calm*. International Monetary Fund.
- Journal, I., Issn, F., & No, I. (2025). *Credit Risk Management Practices and the Profitability of Selected Microfinance Institutions in Bamenda Credit Risk Management Practices and the Profitability of Selected Microfinance Institutions in Bamenda*. 10(3), 55–73.
- Karanja, S., & Mungami, E. (2022). *Credit Management Practices and Loan Performance of Microfinance Banks in Kenya Steve Gakuhi Karanja & Dr . Eddie Mungami Simiyu Credit Management Practices and Loan Performance of Microfinance Banks in Kenya*. 6(1), 108–139.
- Katusiime, L. (2021). COVID 19 and Bank Profitability in Low Income Countries: The Case of Uganda. *Journal of Risk and Financial Management*, 14(12). <https://doi.org/10.3390/jrfm14120588>
- Kimathi, C. M., & Mungai, D. J. (2018). Financial Distress and Profitability of Tier Three Commercial Banks in Kenya. *American Journal of Finance*, 3(1), 46–66. <https://doi.org/10.47672/ajf.339>

- Kothari, C. . (2014). *Research Methodology Methods and Techniques* (Second). New Age International Ltd.
- Krejcie, R. V, & Morgan, D. W. (1970). Sample size determination table. *Educational and Psychological Measurement*, 30, 607–610.
- Kulekci, I., & Ayranci, A. E. (2023). Assessing the relationship between bank capital adequacy and profitability: the example of BIST deposit banks. *Pressacademia*, 16–21. <https://doi.org/10.17261/pressacademia.2023.1658>
- Macharia, J., Nyamute, W., Ochieng, D., & Ndwiga, M. (2023). The Moderating Effect of Bank Size on the Relationship Between Financial Distress Factors and Financial Performance of Commercial Banks in Kenya. *Strategic Journal of Business & Change Management*, 1(1), 132–145. <https://doi.org/10.61426/sjbcm.v9i4.2443>
- Masdjojo, G. N., Suwarti, T., Nuswandari, C., & Sudiyatno, B. (2023). The relationship between profitability and capital buffer in the Indonesian banking sector. *Banks and Bank Systems*, 18(2), 13–23. [https://doi.org/10.21511/bbs.18\(2\).2023.02](https://doi.org/10.21511/bbs.18(2).2023.02)
- Mburu, I. M., 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. <https://doi.org/10.35942/ijcfa.v2i1.105>
- Meliza, Hasan, N. A., & Saputri, H. (2024). The influence of banking liquidity risk on profitability: The moderating role of capital adequacy ratio. *Banks and Bank Systems*, 19(2), 140–151. [https://doi.org/10.21511/bbs.19\(2\).2024.11](https://doi.org/10.21511/bbs.19(2).2024.11)

- Muratenyi, T. S., & Olando, C. O. (2022). Assessment of Loan Portfolio Quality on Financial Performance of Commercial Banks in Kenya. *Asian Journal of Economics, Business and Accounting*, 22(23), 387–401. <https://doi.org/10.9734/ajeba/2022/v22i23882>
- Mustafa, A. R., Ansari, R. H., & Younis, M. U. (2012). Does the loan loss provision profitability in case of Pakistan? *Asian Economic and Financial Review*, 2(7), 772–783. <http://aessweb.com/journal-detail.php?id=5002%0ADOES>
- Muthui, K. P., & Namusonge, M. (2024). Multi-Borrowing Practices and Loan Repayment of Micro and Small Enterprises in Trade Sector in Meru County , Kenya. *International Journal of Business Management, Entrepreneurship and Innovation*, 6(3), 169–191. <https://doi.org/10.35942/01jrc668>
- Nakaweesi, D. (2024). *Three banks downgrade to credit institutions*. Daily Monitor. <https://www.monitor.co.ug/uganda/news/national/three-banks-downgrade-to-credit-institutions-4570898>
- Ngcobo, S., & Ndovela, S. G. (2024). Evaluating financial reporting guidelines in South African public schools. *International Journal of Research in Business and Social Science* (2147-4478), 13(5), 633–642. <https://doi.org/10.20525/ijrbs.v13i5.3332>
- Ngumo, K. S., Collins, K. W., & David, S. H. (2020). *Determinants of Financial Performance of Microfinance Banks in Kenya*. 8(3), 12–25. <http://arxiv.org/abs/2010.12569>
- Nininahazwe, P., & Mutembei, C. (2023). Analyzing the Effects of Credit Management Practices on Loan Repayment Performance of Microfinance Institutions in Makamba, Burundi. *International Journal of Current Aspects in Finance, Banking and Accounting*, 5(2), 49–70.

<https://publications.ijcab.org/a/index.php/IJCFA/article/view/15>

Nuwayo, D., & Uwimbabazi, L. (2020). The Contribution of Loan Risk Management on the Profitability of Commercial Banks . A Case Study of Bank of Kigali Headquarters , Introduction. *East African Journal of Science and Technology*, 10(1), 87–105.

Okong'o, F. (2023). Interest Rates and Profitability of Commercial Banks. *International Journal of Interdisciplinary Research and Innovations*, 11(4), 8–12.

Ownership, C., & Expertise, A. C. (2024). *Ilomata International Journal of Tax & Accounting*. 5(1), 28–43.

Pala, S. K. (2016). Credit risk modeling with big data analytics: Regulatory Compliance and Data analytics in credit risk modeling. *International Journal of Transcontinental Discoveries*, 3(1), 33–39. <https://internationaljournals.org/index.php/ijtd>

Saleh, D. S., & Winarso, E. (2021). Analysis of Non-Performing Loans (NPL) and Loan to Deposit Ratio (LDR) towards Profitability. *International Journal of Multicultural and Multireligious Understanding*, 8(1), 423–436.

Saunders, M., Lewis, P., & Thornhill, A. (2009). *Research methods for business students* (5th ed.). Pearson. www.pearsoned.co.uk

Semusu, A., & Turyasingura, B. (2023). Nonperforming Loans and Performance of Financial Institutions in East Africa: Evidence from Kabale District, Uganda. *International Journal of Finance and Accounting*, 2(1), 9–20. <https://doi.org/10.37284/ijfa.2.1.1193>

Setia, M. S. (2016). Methodology series module 3: Cross-sectional studies. *Indian Journal of Dermatology*, 61(3), 261–264. <https://doi.org/10.4103/0019-5154.182410>

Sifrain, R. (2024). The Effect of CAMEL Model on Loan Portfolio Quality of the Haitian Banking Sector. *Journal of Financial Risk Management*, 13(01), 42–57.
<https://doi.org/10.4236/jfrm.2024.131002>

Srivastava, S. (2025). *A STUDY OF CREDIT MANAGEMENT PRACTICES OF SMALL BUSINESS ENTERPRISES*. March, 0–12.\

UgStandard. (2024, August 7). *Equity Bank tops list of Ugandan banks with highest non-performing loans*

World Bank. (2025, June). *Global Economic Prospects – June 2025*. World Bank. [The World Bank Documents](#)