

Credit Risk Management and Financial Performance of Listed Commercial Banks in Lira City

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ABSTRACT

This study examined the effect of credit risk management on the financial performance of listed commercial banks in Lira City. The objectives of the study were: (1) To examine the effect of non-performing loans on the financial performance of listed commercial banks in Lira City; (2) To examine the effect of loan loss provision on the financial performance of listed commercial banks in Lira City; and (3) To examine the effect of capital adequacy ratio on the financial performance of listed commercial Banks in Lira City. The study employed ex-post facto research design using a combination of cross-sectional and time series data as design and applied the quantitative approach. The study population comprised a total of 5 listed commercial banks (Bank of Baroda, Development Finance Company of Uganda, Equity Bank Limited Uganda, Kenya Commercial Bank Uganda, and Stanbic Bank Uganda Limited) for a period of 13 financial years (2010-2022) with 65 firm-year observations. Secondary data were collected analyzed using software (STATA 14). Results were presented inform of descriptive statistics, correlation analysis and regression analysis. The findings revealed that NPL had a negative significant effect on ROE. Hence, hypothesis (1) was not rejected, Hypothesis (2) was not disproven. The findings obtained from the analysis of listed commercial banks in Lira City was that, there was no significant influence of LLP on the financial performance of these banks, as measured by both ROA and ROE. For the hypothesis (3), a significant negative effect of CAR on ROA was revealed, CAR on ROA with coefficient of -0.35083 suggested that an increase in the CAR is associated with a significant decrease in ROA. The study recommends first, banks should focus on improving NPL management to mitigate the adverse impact on financial performance. Second, banks should regularly review LLP practices to accurately reflect potential risks and maintain financial resilience. Third, banks should carefully balance their capital adequacy to ensure financial stability while optimizing ROA. Fourth, banks should diversify revenue streams, implement stress testing and risk management, and continuously monitor and adapt strategies that are essential for them to be able to thrive in the dynamic banking industry.

Keywords: *Credit, Risk Management, Financial Performance, Commercial Banks, Lira City*

