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*Original Article*

# RELATIONSHIP BETWEEN CREDIT RISK ASSESSMENT, MONITORING, AND PERFORMANCE OF LOANS IN SELECTED COMMERCIAL BANKS IN KAMWENGE DISTRICT. A CROSS-SECTIONAL STUDY.

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## Abstract
### Background
Credit risk management refers to the practice of assessing and managing the potential risks associated with lending money to borrowers or extending credit to customers and clients. The purpose of the study was to determine the relationship between credit risk assessment, monitoring, and performance of loans in selected commercial banks in Kamwenge District.

### Methodology
Descriptive correlational and cross-sectional study. A sample of 75 respondents was selected from a population of 94 employees of the selected banks in Kamwenge District

### Results
There was a strong positive correlation of 628 between credit risk assessment and the performance of loans in selected commercial banks in Kamwenge District. The correlation is significant at the 0.01 level (2-tailed) further reinforcing the strength of the relationship between credit risk assessment and loan performance. The better the credit risk assessment practices in the banks, the better the performance of the loans they provide. The correlation between credit risk monitoring and the performance of loans is 0.622. This value indicates a strong positive correlation between credit risk monitoring and the performance of loans in the selected commercial banks. The correlation is statistically significant with a p-value of .000, indicating that the relationship between credit risk monitoring and loan performance is not due to random chance.

### Conclusion
There is a strong positive correlation between credit risk assessment, credit risk monitoring, and the performance of loans in commercial banks in Kamwenge District.

### Recommendation
Commercial banks should establish robust mechanisms for ongoing monitoring of credit risk exposure and borrower behavior. Regularly assess and review the credit quality of loans in the portfolio to identify early warning signals of potential defaults or credit deterioration.

***Keywords:*** *Credit risk assessment, Monitoring performance, Loans, Commercial banks, Kamwenge District.*
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## Background of the study

In the early years, credit risk management was relatively underdeveloped, mainly due to the lack of expertise and regulatory frameworks (Mbabazize, 2020). Banks had limited tools and knowledge to assess and monitor credit risk, resulting in a higher likelihood of loan defaults and poor loan performance (Mafumbo, 2020).

During the late 1980s and 1990s, Uganda witnessed economic reforms and deregulation, which led to increased competition among commercial banks (Balyawo, 2019). With market liberalization, banks faced a growing need to focus on credit risk management to safeguard their portfolios and profitability (Atuhirwe, 2019). This period marked a turning point in the approach to credit risk, with a realization that effective management was crucial for long-term stability and growth (Nabweteme Sewanyana, 2011).

Credit risk management refers to the practice of assessing and managing the potential risks associated with lending money to borrowers or extending credit to customers and clients (Balungi, 2018). This process involves identifying, measuring, monitoring, and controlling the risks inherent in granting credit to individuals, businesses, or other entities (Kaahwa, 2013). Credit risk management aims to minimize the likelihood of borrowers defaulting on their loans or failing to meet their financial obligations. It involves evaluating the creditworthiness of potential borrowers or customers, setting appropriate credit limits and terms, establishing risk mitigation strategies, and monitoring the credit portfolio to identify and address any potential risks or problem accounts (Odokonyero, 2019).

# Methodology

## Research design

This study followed a descriptive correlational and cross-sectional survey design. The researcher employed quantitative methods to establish numerical findings in line with the study objectives. Correlation was used to establish the relationship between study variables based on the study objectives. The study was also cross-sectional since it collected data at a point in time and had no follow-up. Descriptive statistics were used to explain the characteristics of the respondents and findings of some variables using mean and standard deviation

## Target population

The study was conducted in three commercial banks, namely; Finance Trust Bank, Centenary Bank, and Stanbic Bank. According to the Human Resource Report (2022) of the selected commercial banks, they had 32, 37, and 25 permanent staff respectively in Kamwenge District. Therefore, 94 employees of the selected commercial banks were used as the target population for the study

## Sample size

**Table 1: Target population, sample size, and sampling techniques**

| Department | Population | Sample size | Sampling Technique |
|---|---|---|---|
| Finance Trust Bank | | | |
| Managers | 3 | 03 | Purposive sampling |
| Loan officers | 8 | 05 | Purposive sampling |
| Other staff | 10 | 8 | Simple random sampling |
| Centenary bank | | | |
| Managers | 03 | 03 | Purposive sampling |
| Loan officers | 5 | 05 | Purposive sampling |
| Other staff | 32 | 26 | |
| Stanbic bank | | | |
| Managers | 3 | 03 | Purposive sampling |
| Loan officers | 5 | 05 | Purposive sampling |
| Other staff | 25 | 17 | Simple random sampling |
| **Total** | **94** | **75** | |

A sample of 75 respondents was selected from a population of 94 employees of the selected banks in Kamwenge District guided by Kreijcie and Morgan's (1970) table. These comprised of 09 managers, 15 loan officers, and 51 other staff of the banks in Kamwenge District.

## Sampling techniques

In this study, simple random sampling and purposive sampling techniques were used in selecting the respondents of the study. A simple random sampling technique was used in selecting technical support staff of the selected banks to participate in the study. The method was preferred because it eliminated bias in the findings as all the staff have a similar chance of being selected. Purposive sampling was also used in selecting managers and loan officers of the selected banks. The technique was used to obtain key information about the study.

## Sources of data

Data for this study was collected from both primary and secondary sources. Primary data was obtained using questionnaires and scheduled interviews. This type of data was collected from the respondents. Secondary data for this study was obtained from records, reports, journals, magazines, Newspapers, and books. The data obtained from secondary sources was used for empirical studies and literature review.

## Methods of data collection

The researcher obtained relevant data for this study mainly primary data using primary collection methods such as questionnaire method and interviews directly from the field. The method was used to obtain detailed information within a short period.

## Questionnaires

The researcher issued Self-Administered Questionnaires to the selected respondents of Finance Trust Bank and other selected commercial bank staff in Kamwenge District to fill in answers at their discretion. These were collected after one week from the date of issue.

## Interview guide

The researcher used the interview method to collect more detailed information from the managers and loan officers at the selected bank. The researcher carefully noted down answers for each question. The method was also used to obtain additional information that was not captured by the questionnaires.

## Ethical considerations

The researcher adhered to all the ethical rules of data collection from humans and ensured utmost care and compliance with the available rules. The following are directly relevant to this study;

1. Respondents were informed about the purpose of the study and were informed of how provided data was to be treated. For this matter,

each respondent who was contacted and given a consent form to sign.

2. No respondent was forced to participate in the study. Their rights were respected to participate and were fully informed about their freedom to withdraw any time they wished. All these were communicated verbally and also in the consent form.
3. The data provided by respondents was treated with utmost confidentiality. The researcher made sure that information relating to the identity of individual respondents was avoided and no data was collected on them, such as their names, and names of their parents or children. In addition, all the information respondents were given through questionnaires or interviews, kept secret, and was not revealed to other people. The findings were therefore reported in a generalized manner and the raw data was protected from being accessed by other people.
4. After the approval of the proposal, the researcher secured all the necessary clearances from the different offices concerned. The researcher sought permission from the school of graduate studies to go and carry out the study. The researcher requested a letter from the office for the confirmation of the permission. The researcher sought permission from Centenary Bank to collect data from its employees and use its records and other necessary documents to carry out the study.
5. The researcher ensured that all authors whose works and ideas were used in this study were fully acknowledged through proper citation and referencing.

## Validity and Reliability of the Study

**To ensure validity and reliability in the study, the researcher did the following:**

- **Validity of instruments**

To ensure validity, the researcher discussed the research questions with the supervisor and other 9 experts in research. These experts were requested to judge the question items one by one, indicating what was relevant and what was not. The content Validity Index (CVI) was then calculated using the following formula;

$$CVI = \text{summation } (n / N) = (280/300) = 0.93$$

Where: n = items related to the relevant, total number of items.

Of all the 10 experts that participated in judging the questions, 280 out of 300 were accurate hence A Content Validity Index of 0.93. This was way greater than 0.7 as proposed by Amin (2005). Therefore, the research instruments were valid, accurate, and relevant.

- **Reliability of the instrument**

To test for the reliability of the instrument, the researcher used the Cronbach alpha coefficient using data collected from the pilot study of 05 respondents. The data from the pilot study was entered into the computer Statistical Package for Social Sciences (SPSS) and a Cronbach Alpha coefficient was computed and was 0.94 hence was compared with 0.7 hence a good measure of validity as proposed by Amin (2005).

## Data Analysis

After the questionnaires were collected from the field, the researcher entered, organized, coded, and validated the collected data using Microsoft Excel. The data was exported to SPSS for analysis. Using Statistical Package for Social Scientists (SPSS), the researcher determined the mean, variance, and standard deviation for numerical variables, and drew frequency distribution tables for Univariate analysis of the study variables and characteristics of the respondents.

Pearson's linear correlation was used to establish the relationship between credit risk assessment, monitoring, mitigation, and performance of loans in commercial banks. Multiple linear regressions were used to establish the relationship between credit risk management and the performance of loans in commercial banks in Kamwenge District.

## Results

**Table 2: A response rate of the study**

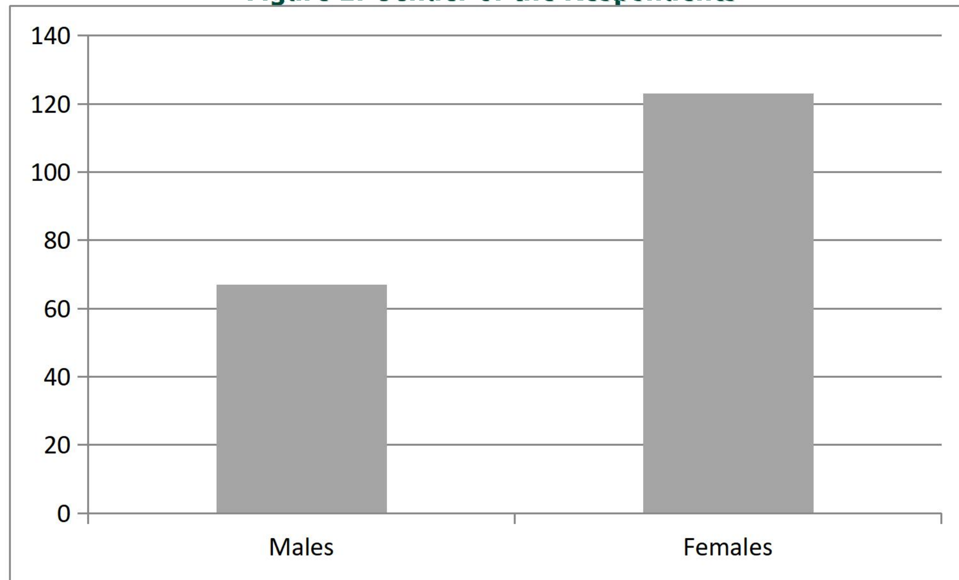
| Department | Questionnaires issued | Questionnaires received | Response rate (%) |
|---|---|---|---|
| Managers | 09 | 07 | 77.8 |
| Support Staff | 51 | 51 | 100 |
| Loan officers | 15 | 12 | 80 |
| **Total** | **75** | **70** | **93.3** |

*Source: Primary data (2023)*

The response rates for managers, support staff, and loan officers were 77.8%, 100%, and 80% respectively. Overall, the organization has a response rate of 93.3%, which indicates a generally positive engagement from the participants.

## Demographic characteristics of the respondents

**Figure 1: Gender of the Respondents**




*Source: Primary (2022).*

Figure 1, 45 of the respondents were females and 25 of the respondents were males. Therefore, the majority (64.3%) of the respondents for the study were females working in the banking sector in Kamwenge District

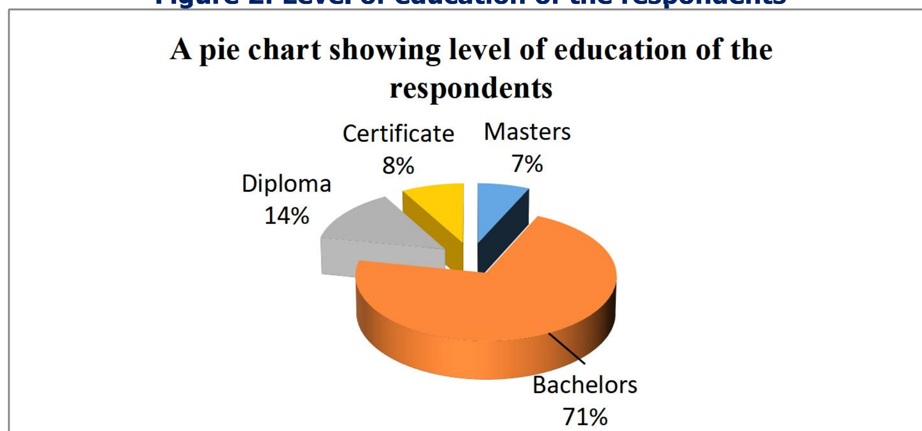
**Table 3: Age of the respondents**

| Age | Frequency | Percent |
|---|---|---|
| 20-30 years | 6 | 8.57% |
| 31-45 years | 48 | 68.57% |
| 45+ years | 16 | 22.86% |
| Total | 70 | 100% |

*Source: Primary data (2024)*

Table 3, shows 8.57% of the respondents were aged between 20-30 years, 68.57% of the respondents were aged between 31-45 years and 22.86% of the respondents were aged 45 years and above. Therefore, the majority of the respondents were energetic to carry out banking activities efficiently.

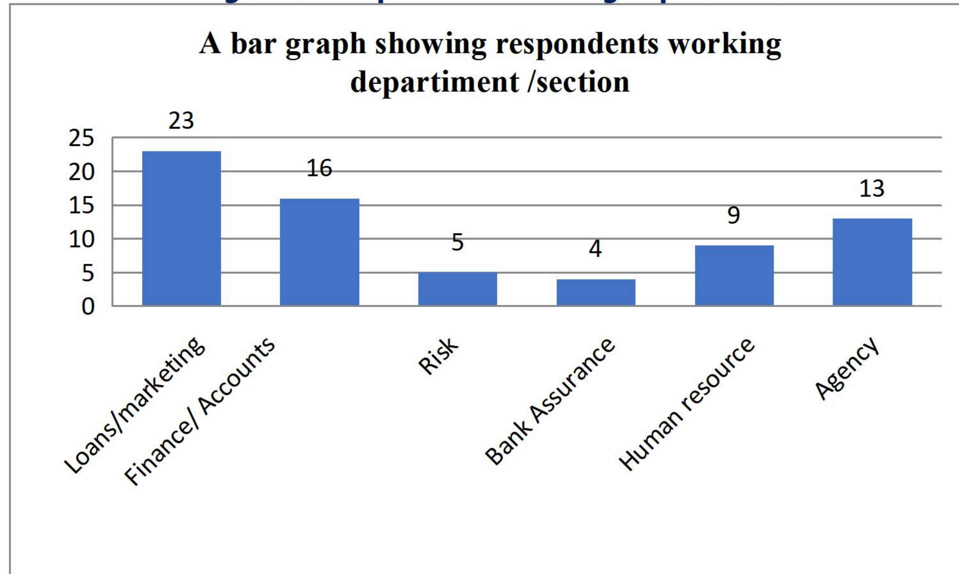
**Figure 2: Level of education of the respondents**




*Source: Primary data (2024)*

Figure 2, 78% of the respondents were university graduates, 14% had a Diploma level education and 8% of the respondents had certificates in various areas of specialization within the banking sector. Therefore, all the respondents had formal education and sufficient knowledge and skills in credit risk management in commercial banking.

**Figure 3: Respondents working department**




*Source: Primary data (2024)*

Figure 3, most of the respondents are working with the loans/ credit/ marketing department (23) followed by respondents working in the finance/accounts department, agency department, human resource department, risk department, and bank assurance department. This shows that the majority of the employees (61, loans, finance, risk, bank assurance, agency) in the selected commercial bank departments have sufficient knowledge of credit risk management.

**Table 4: Respondents working experience**

| Work experience | Frequency | Percentage |
|---|---|---|
| 0- 2 years | 12 | 17% |
| 3-5 years | 30 | 43% |
| 6-10 years | 20 | 29% |
| 11+ years | 8 | 11% |
| **Total** | **70** | **100%** |

Table 4, 17% of the employees have work experience ranging from 0 to 2 years. This indicates that a small percentage of employees are relatively new in their roles. (43%) fall within the 3-5 years' experience range. This suggests that a significant proportion of employees have gained some experience and have advanced beyond entry-level positions. 29% of employees have work experience between 6 to 10 years. This indicates a substantial number of employees who have spent a considerable amount of time in their roles and have potentially developed a deeper understanding of their work. (11%) have more than 11 years of work experience. While this group is relatively small, they represent employees with significant expertise and possibly hold senior positions within the banks. Overall, the data suggests that there is a mix of experienced employees along with newer employees in the selected commercial banks in the Kamwenge district. This blend of experience levels contributes to a diverse and well-rounded workforce that brings a combination of fresh perspectives and seasoned expertise to the banking sector in the region.

**Figure 4: Credit risk assessment methods in commercial banks in Kamwenge District**

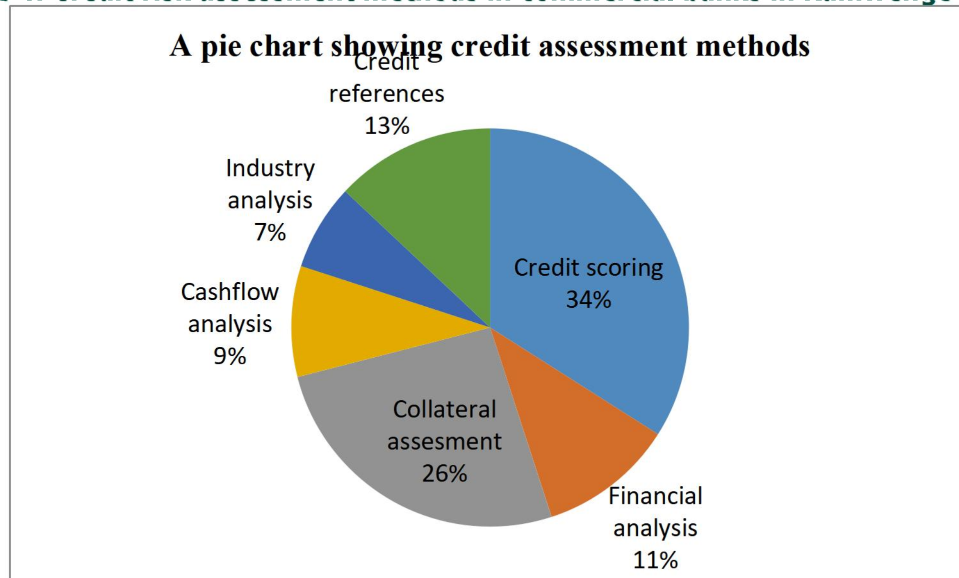



Figure 4, the most used method in assessing risk was credit scoring (34%). Credit scoring was the most commonly used credit assessment method in the Kamwenge district. Banks use credit scoring models to analyze the credit history, income level, existing debt, and repayment behavior of loan applicants. The credit score helps banks determine the likelihood of loan repayment and make informed lending decisions. Use collateral assessment method (26%). Collateral assessment is an important credit assessment method used by commercial banks in the Kamwenge district. Banks evaluate the value of assets provided as collateral, such as real estate or vehicles, to secure the loan. The value of the collateral determines the amount of the loan that can be approved. Use credit references (13%). Commercial banks in Kamwenge district also rely on credit references provided by loan applicants. Banks contact these references to verify credit history and repayment behavior, which helps assess the credit risk associated with lending to a particular individual or business. Use the financial analysis assessment method (11%). Financial analysis is another key credit assessment method used by banks in the Kamwenge district. Banks analyze the financial statements and documents provided by loan applicants to assess their financial health and ability to repay the loan. This includes reviewing income statements, balance sheets, and cash flow statements. Commercial banks also used cash flow analysis (9%). Cash flow analysis is used by commercial banks in the Kamwenge district to evaluate the cash flow of businesses applying for loans. Banks assess the business's ability to generate sufficient income to repay the loan by analyzing revenue sources, expenses, and cash flow projections. Use Industry analysis (7%) to assess credit. Some banks in the Kamwenge district conduct industry-specific assessments when evaluating loan applications. This involves analyzing market trends, competitive landscape, and industry risks to assess the viability of a business and its ability to repay the loan. These credit assessment methods were crucial for commercial banks in the Kamwenge district in making informed lending decisions, managing credit risk effectively, and ensuring the repayment of loans. By using a combination of these methods, banks assess the creditworthiness of borrowers and minimize the risks associated with lending.

## Descriptive findings on credit risk assessment and performance of loans in selected commercial banks in Kamwenge District

For this particular section, responses were captured based on the Likert scale hence the answers were on a scale of 1 to 5 i.e. 5= Strongly Agree, 4= Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree. The table also includes the summary of the participant's responses based on percentages (P), frequency (F), standard deviation (Std), and mean.

**Table 5: Descriptive findings on credit risk assessment and performance of loans in selected commercial banks in Kamwenge District**

| Statements | SA | A | N | D | SD | Mean | Std |
|---|---|---|---|---|---|---|---|
| Banks review the borrower's past credit history | 56 | 14 | | | | 4.8 | 0.3 |
| | 80% | 20% | | | | | |
| Banks assess the borrower's income and financial stability | 23 | 32 | 15 | | | 4.1 | 0.6 |
| | 32.9% | 45.7% | 21.4% | | | | |
| Banks evaluate the borrower's debt-to-income ratio | 8 | 34 | 23 | 5 | | 3.6 | 0.8 |
| | 11.4% | 48.6% | 32.95 | 7.1% | | | |
| Banks require borrowers to provide collateral to secure the loan. | 64 | 6 | | | | 4.9 | 0.1 |
| | 91.4% | 8.6% | | | | | |
| Banks assess the purpose of the loan | 13 | 41 | 16 | | | 3.9 | 0.4 |
| | 18.6% | 58.6% | 22.8% | | | | |
| Banks consider the borrower's industry and macroeconomic factors to provide a loan | 4 | 19 | 43 | 4 | | 3.3 | 0.8 |
| | 18.6% | 27.1% | 61.4% | 18.6% | | | |
| Banks ensure that borrowers meet all legal and regulatory requirements | 56 | 9 | 5 | | | 4.7 | 0.4 |
| | 80% | 12.9% | 7.1% | | | | |

*Source: Primary data (2024)*

Table 5, On the statement "Banks review the borrower's past credit history", the majority of participants (80%) strongly agree (56 responses) that banks review the borrower's past credit history. This indicates that assessing credit history is a significant factor in credit risk assessment. On the statement "Banks assess the borrower's income and financial stability", while a significant portion (45.7%) agree that banks assess the borrower's income and financial stability, a sizeable number (32.9%) also strongly agree with this statement. This suggests that income evaluation is considered an important factor in loan assessment. In the statement "Banks evaluate the borrower's debt-to-income ratio", findings showed that the responses were more evenly distributed here, with no strong consensus. However, the majority (48.6%) agree that banks evaluate the borrower's debt-to-income ratio. This indicates that debt levels relative to income are taken into consideration during the assessment process. The statement "Banks require borrowers to provide collateral to secure the loan" had an overwhelming majority (91.4%) strongly agreeing that banks require borrowers to provide collateral. This practice helps mitigate credit risk by providing security for the loan. Findings on the statement "Banks assess the purpose of the loan", showed that while the responses are fairly evenly distributed, the overall mean score indicates that a significant portion of participants n(58.6%) agree that banks assess the purpose of the loan. Understanding the intended use of funds is crucial in evaluating credit risk. The statement "Banks consider the borrower's industry and macroeconomic factors to provide a loan" had a notable percentage (61.4%) showing neutrality in this aspect, indicating a mixed perception of its importance. Findings on the statement "Banks ensure that borrowers meet all legal and regulatory requirements" showed that the majority (80%) strongly agree that banks ensure borrowers meet legal and regulatory requirements. Compliance with laws and regulations is essential for maintaining a sound lending environment.

During the interview with one of the credit managers, he said *"Commercial banks often use credit scoring models to assess the creditworthiness of borrowers. These models analyze various factors, such as credit history, income, employment status, debt-to-income ratio, and repayment behavior, to assign a numerical score to each borrower. The credit score helps banks evaluate the probability of default and make lending decisions accordingly"* The Branch manager said *"Banks require borrowers to provide collateral, such as real estate, equipment, or inventory, to secure loans. Collateral serves as a form of protection for the bank in case of borrower default. Banks assess the value and quality of collateral to determine its adequacy in covering the loan amount and mitigating credit risk"*

*One of the loan officers also added that "Commercial banks utilize credit risk rating systems to categorize borrowers into different risk categories based on their creditworthiness. These rating systems typically use a scale ranging from low risk to high risk, with corresponding credit terms and pricing. Banks assign credit ratings to borrowers based on their credit scores, financial metrics, and other relevant factors"*

## Correlational findings on credit risk assessment and performance of loans in selected commercial banks in Kamwenge District

**Table 6: Pearson correlation between credit risk assessment and performance of loans in selected commercial banks in Kamwenge District**

| | | | Performance of loans |
|---|---|---|---|
| Credit risk assessment | Pearson Correlation | 1 | .628** |
| | Sig. (2-tailed) | | .001 |
| | N | 70 | 70 |
| Performance of loans | Pearson Correlation | .628** | 1 |
| | Sig. (2-tailed) | .001 | |
| | N | Credit risk assessment 70 | 70 |
| **. Correlation is significant at the 0.01 level (2-tailed).<br>**Source:** Primary (2023) | | | |

Table 6, a strong positive correlation of 628 between credit risk assessment and the performance of loans in selected commercial banks in Kamwenge District. This indicates that there is a significant relationship between how banks assess credit risk and the subsequent performance of loans they offer. The correlation is significant at the 0.01 level (2-tailed) further reinforcing the strength of the relationship between credit risk assessment and loan performance. In other words, the better the credit risk assessment practices in the banks, the better the performance of the loans they provide. This suggests that banks in Kamwenge District that implement robust credit risk assessment processes are likely to experience better loan performance outcomes. It underscores the importance of effective risk management practices in the banking sector to mitigate loan default risks and improve overall loan portfolio performance.

## Descriptive findings on credit risk monitoring and performance of loans in selected commercial banks in Kamwenge District

The researcher used a Likert scale for this particular section of the study where the responses were on a scale of 1-5. Where 1 = Strongly Agree, 2= Agree, 3 = Neutral, 4 = Disagree and 5 = Strongly Disagree. The table below shows a summary of the participant's responses based on percentages (Gerlinger et al.), frequency (F), standard deviation (Std), and mean.

**Table 7: Descriptive findings on credit risk monitoring and performance of loans in selected commercial banks in Kamwenge District**

| Statement | | SA | A | N | D | SD | Mean | Std |
|---|---|---|---|---|---|---|---|---|
| Banks monitor the credit scores of the borrowers | F | 34 | 22 | 14 | | | 4.2 | 0.4 |
| | P | 48.6% | 31.4% | 20% | | | | |
| Banks monitor the loan repayment schedules of borrowers | F | 60 | 5 | 5 | | | 4.8 | 0.2 |
| | P | 85.7% | 7.1% | 7.1% | | | | |
| Banks regularly check borrowers' credit reports creditworthiness | F | 22 | 23 | 20 | 5 | | 3.9 | 0.6 |
| | P | 31.4% | 32.9% | 28.6% | 7.1% | | | |
| Banks require borrowers to provide updated financial statements periodically | F | | 16 | 23 | 31 | | 2.8 | 0.7 |
| | P | | 22.9% | 32.9% | 44.2% | | | |
| Banks monitor the status of the collateral pledged by the borrower | F | 44 | 26 | | | | 4.6 | 0.3 |
| | P | 62.9% | 37.1% | | | | | |
| Banks communicate with borrowers to provide reminders about upcoming payments | F | 34 | 33 | 3 | | | 4.4 | 0.4 |
| | P | 48.6% | 47.1% | 4.2% | | | | |
| Banks monitor compliance with covenants given to borrower | F | 19 | 12 | 8 | 31 | | 3.2 | 0.8 |
| | P | 27.2% | 17.1% | 11.4% | 44.3% | | | |
| Banks conduct regular reviews of loan portfolios | F | 21 | 26 | 19 | 4 | | 3.9 | 0.7 |
| | P | 30% | 37.1% | 27.1% | 5.8% | | | |

Table 7, On the statement "Banks monitor credit scores of the borrowers", it is evident from the data that a significant proportion of participants (48.6%) strongly agree that banks monitor the credit scores of borrowers. This indicates that credit score monitoring is considered important in assessing credit risk by the majority of respondents. In the statement "Banks monitor loan repayment schedules of borrowers", the findings showed that a large majority of participants (85.7%) strongly agree that banks monitor the loan repayment schedules of borrowers. This high agreement suggests that monitoring repayment schedules is a common practice in

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the selected commercial banks in Kamwenge District. On the statement "Banks regularly check borrowers' credit reports for creditworthiness", the results indicate that there is a mixed response to this statement, with a similar number of participants agreeing and disagreeing. This shows some variability in the perception of how credit reports are used to assess creditworthiness. In the statement "Banks require borrowers to provide updated financial statements periodically", findings show a relatively low percentage of participants (22.9%) agree that banks require updated financial statements from borrowers periodically. This may indicate a potential area for improvement in terms of assessing the financial health of borrowers. In the statement "Banks monitor the status of the collateral pledged by the borrower", findings revealed that a majority of participants (62.9%) strongly agree that banks monitor the status of collateral pledged by borrowers. This suggests that collateral monitoring is considered an important risk mitigation tool by the respondents.

In the statement "Banks communicate with borrowers to provide reminders about upcoming payments", findings indicated that a significant proportion of participants (48.6%) strongly agree that banks communicate with borrowers to provide payment reminders. This indicates that proactive communication is valued in ensuring timely loan repayments. In the statement "Banks monitor compliance with covenants given to borrowers", findings show that a considerable percentage of participants (44.3%) disagree that banks monitor compliance with covenants given to borrowers. This suggests that there may be room for improvement in enforcing and monitoring loan covenants. In the statement "Banks conduct regular reviews of loan portfolios", findings indicate that a substantial number of participants agree that banks conduct regular reviews of loan portfolios. This practice is essential for identifying and addressing potential risks in the loan portfolio.

One of the branch managers said "*Commercial banks require borrowers to submit regular financial statements, including income statements, balance sheets, and cash flow statements. These statements provide insights into the financial health of borrowers and their ability to meet debt obligations. Banks review these reports periodically to assess any changes in the borrower's financial condition and identify potential credit risks"*

*Another loans officer said "Banks often include loan covenants in lending agreements to monitor borrowers' financial performance and behavior. Loan covenants are contractual provisions that specify certain requirements and restrictions that borrowers must adhere to, such as maintaining certain financial ratios, maintaining adequate levels of collateral, or restricting additional borrowing. Banks monitor compliance with these covenants and take appropriate actions if borrowers breach any terms of the agreement"*

*Another credit risk manager said "Banks utilize CRM systems to track interactions with borrowers and maintain comprehensive records of customer relationships. These systems capture relevant information, such as communication history, account activity, and customer preferences. By leveraging CRM data, banks can gain insights into borrowers' behavior, anticipate their needs, and identify any red flags that may indicate credit risk"*

## Correlation between findings on credit risk monitoring and performance of loans in selected commercial banks in Kamwenge District.

**Table 8: Correlation findings credit risk monitoring and performance of loans in selected commercial banks in Kamwenge District**

| | | Credit risk monitoring | Performance of loans |
|---|---|---|---|
| Credit risk monitoring | Pearson Correlation Coefficient | 1.000 | 0.622* |
| | Sig. (2-tailed) | | .000 |
| | N | 70 | 70 |
| Performance of loans | Correlation Coefficient | 0.622* | 1.000 |
| | Sig. (2-tailed) | .000 | |
| | N | 70 | 70 |

*Source: Primary (2024)*

Table 8. The correlation between credit risk monitoring and the performance of loans is 0.622. This value indicates a strong positive correlation between credit risk monitoring and the performance of loans in the selected commercial banks. The correlation is statistically significant with a p-value of .000, indicating that the relationship between credit risk monitoring and loan performance is not due to random chance. The strong positive correlation between credit risk monitoring and the performance of loans implies that effective credit risk monitoring practices in the selected commercial banks are associated with better loan performance outcomes. The findings suggest that when banks proactively monitor credit risks, such as credit scores, loan repayment schedules, and collateral status, it can lead to improved loan performance in terms of timely repayments and lower defaults. The lower correlation coefficient between credit risk monitoring and loan performance compared to the correlation within loan performance variables may indicate that while credit risk monitoring plays a significant role, there are other factors influencing loan performance as well. The

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statistically significant correlation reinforces the importance of robust credit risk monitoring practices in enhancing the overall performance of loan portfolios within commercial banks.



## Discussion

### Discussion of findings on credit risk assessment and performance of loans in selected commercial banks in Kamwenge District

The study findings show a strong positive correlation of .628 between credit risk assessment and the performance of loans in selected commercial banks in Kamwenge District. This indicates that there is a significant relationship between how banks assess credit risk and the subsequent performance of loans they offer.

**Asghar (2014)** and colleagues provide an overview of credit risk assessment methods used by commercial banks, including credit scoring models and credit rating models. Their study highlights the importance of these frameworks in influencing loan performance by informing lending decisions and managing credit risk effectively. In Kamwenge District, banks likely employ similar methods to assess credit risk, contributing to the observed positive correlation between credit risk assessment and loan performance. The study by Adebayo (2018) and colleagues examines the relationship between credit risk and financial performance in Nigerian commercial banks. They emphasize the importance of effective credit risk assessment in maintaining stability and profitability. Similarly, in Kamwenge District, robust risk management frameworks likely play a crucial role in mitigating losses and ensuring sustainable banking operations, thus contributing to better loan performance outcomes. Usta (2018) compares different credit risk assessment models employed by commercial banks, including statistical models and expert systems. Their analysis of the strengths and weaknesses of these models underscores the importance of selecting appropriate assessment techniques to improve loan performance and overall financial stability. Banks in Kamwenge District may benefit from adopting suitable models tailored to their specific risk profiles and lending practices. Khan and Ahmed (2019) conducted a comprehensive review of machine learning techniques used for credit risk assessment in commercial banks. Their study discusses the challenges and opportunities associated with adopting these advanced algorithms to assess credit risk and improve loan performance. Banks in Kamwenge District may explore the adoption of machine learning techniques to enhance the accuracy and efficiency of their credit risk assessment processes. The study by Noor (2017) and colleagues focuses on the impact of credit risk assessment on non-performing loans in commercial banks in Pakistan. Their findings highlight the effectiveness of different assessment techniques in managing and minimizing non-performing loans, thereby enhancing loan portfolio performance. Banks in Kamwenge District can draw insights from these findings to implement effective risk management strategies and mitigate loan default risks. Martínez-Martínez (2019) provides an overview of credit risk assessment models used in commercial banks, emphasizing the need for a comprehensive assessment framework that considers both quantitative and qualitative factors. Their study underscores the importance of evaluating credit risk accurately to improve loan performance. Banks in Kamwenge District may benefit from adopting holistic assessment approaches to enhance their risk management practices.

Overall, the study findings in Kamwenge District underscore the critical importance of thorough credit risk assessment processes in commercial banks. By implementing robust risk management frameworks and leveraging appropriate assessment techniques, banks can mitigate loan default risks, improve loan portfolio performance, and ensure financial stability in the district.

### Discussions of findings on credit risk monitoring and performance of loans in selected commercial banks in Kamwenge District

The correlation between credit risk monitoring and the performance of loans is 0.622. This value indicates a strong positive correlation between credit risk monitoring and the performance of loans in the selected commercial banks. the correlation is statistically significant with a p-value of .000, indicating that the relationship between credit risk monitoring and loan performance is not due to random chance.

The study by Mühlemann and Puri (2020) emphasizes the significance of proactive credit risk monitoring in reducing loan delinquency and default rates. It suggests that effective monitoring practices help banks prevent and manage credit risks more efficiently, leading to better loan performance outcomes. In Kamwenge District, commercial banks may prioritize proactive credit risk monitoring to mitigate risks and improve loan portfolio performance. Al-Tarawneh (2022**)** investigates the impact of credit risk monitoring on loan performance in Jordanian commercial banks and finds a positive relationship between effective monitoring systems and loan performance. This implies that regular monitoring of loan portfolios can identify potential risks and facilitate timely actions to mitigate credit losses. Similarly, in Kamwenge District, commercial banks may benefit from enhancing their monitoring systems to improve loan quality and performance. The study by Nwankwo and Okafor (2019) examines the relationship between credit risk monitoring practices and loan performance in Nigerian commercial banks. It reveals that effective monitoring significantly reduces loan default rates and enhances loan performance. Banks in Kamwenge District can draw insights from these findings to focus on improving their credit risk monitoring systems and ultimately enhance loan portfolio performance. Although not specifically focusing on credit risk monitoring in commercial banks,

Chor and Manova's (2012) study emphasizes the importance of credit availability and risk management during financial crises. Effective credit risk monitoring in commercial banks can mitigate adverse effects on loan performance during such periods. This underscores the importance of robust monitoring practices in maintaining loan portfolio stability, even in challenging economic environments. Santos (2019) investigates the relationship between bank concentration and credit risk monitoring in European commercial banks. The study finds that higher bank concentration is associated with weaker monitoring practices and higher loan defaults. This suggests that effective credit risk monitoring is crucial for maintaining loan performance, especially in markets with higher concentration levels. In Kamwenge District, commercial banks may need to ensure robust monitoring practices despite market concentration challenges. Sufian (2009) highlights the importance of effective risk management practices, including credit risk monitoring, in enhancing bank performance. The study suggests that robust monitoring of credit risks contributes to better loan performance and overall bank profitability. Commercial banks in Kamwenge District can benefit from implementing comprehensive risk management practices, including effective credit risk monitoring, to improve loan portfolio performance and financial stability.

Overall, the study findings underscore the critical role of credit risk monitoring in commercial banks and its significant impact on loan performance. By prioritizing proactive monitoring practices and enhancing monitoring systems, banks in Kamwenge District can mitigate risks, minimize defaults, and improve the overall quality of their loan portfolios.

## Conclusion

The study findings show a strong positive correlation of .628 between credit risk assessment and performance, then 0.622 between credit risk monitoring and performance of loans in selected commercial banks in Kamwenge District.

## Recommendation

Commercial banks should implement more comprehensive and sophisticated credit risk assessment techniques to accurately evaluate the creditworthiness of borrowers. Utilize data analytics and credit scoring models to enhance the predictive power of credit assessments and improve risk evaluation.

Commercial banks should establish robust mechanisms for ongoing monitoring of credit risk exposure and borrower behavior. Regularly assess and review the credit quality of loans in the portfolio to identify early warning signals of potential defaults or credit deterioration.

Commercial banks should develop clear and comprehensive credit risk management policies and frameworks that outline roles, responsibilities, and procedures for assessing, monitoring, and mitigating credit risk. Ensure adherence to regulatory requirements and industry best practices.

Commercial banks should foster collaboration and information sharing among banks in the Kamwenge District to exchange best practices and insights on credit risk management. Participate in industry forums and training sessions to stay updated on emerging trends and strategies.

## List of Abbreviations

**CVI** Content Validity Index
**SPSS** Special Package for Social Sciences

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## Conflict of interest

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