

Does Interest Rates affect Financial Disclosure and Non-performing Loans? Evidences from Commercial Banks in Western Uganda.

ABSTRACT

In this research, attention is paid to the relationship between commercial banking FD, interest rates (IR), and non-performing loans (NPLs). The method used involved a combination of quantitative data and arranged survey methods. It surveyed 189 people from various commercial banks in Uganda about their views on financial disclosure practices including interest rates and NPLs. They used descriptive data (mean responses, mean intercepts and standard deviations) to describe their opinions while Pearson correlation analysis examined the relationships between financial disclosure, interest rates—and non-performing loans. To test the mediated model, they used Structural Equation Modelling (SEM) with SmartPLS to determine how interest rates affect financial disclosure and NPLs. The study included data from various sources. A small but statistically significant positive association ($r=0.378$, $p=0.05$) was observed between financial disclosure and NPLs, suggesting that more open-minded financial reporting leads to a gradual decrease in the number of NPAs. Also, the model that was mediated demonstrated that interest rates play a crucial role in mediating, with 0.916 being the highest connection weight between interest rate and NPLs. Additionally, it was found that NPLs decreased with more transparent financial reporting practices ($r=0.777$, $p=0.000$), but the correlation with accurate valuation was less clear. Interest rate hikes and loan policy disclosure are crucial factors that must be considered when regulating NPLs, as stated in the study. Additionally, A partial explanation was given for why the connection between interest rates and financial disclosure played a role in decreasing NPLs, underscoring the crucial role of transparency within finance. It provides valuable insights into the dynamics of financial disclosure and its impact on non-performing loans in the banking industry.

Key words: Commercial banks, Financial disclosure, Interest rates, Non-performing loans

1.1 INTRODUCTION

The banking sector is a vital component of any country's economic development, as it provides financial services that promote investment, business, and job creation. Developing economies, such as Uganda, heavily depend on commercial banks for access to credit, business support, and financial inclusion (Owolabi & Longe, 2023). However, the sector is consistently encountering problems with handling non-performing loans (NPLs), which are debts that borrower's default on. NPLs pose significant risks to the stability of banks, such as reducing their ability to lend money, raising operational expenses, and decreasing profitability. Uganda's financial system is under significant pressure due to the persistent problem of NPLs, with many banks struggling to maintain strong loan portfolios (Mwebaze, 2023). There are numerous internal and external factors that can

lead to the development of NPLs. The internal factors that contribute to this are often exacerbated by inadequate financial disclosure practices and poor risk management systems (Hassan et al, 2021). The provision of accurate and complete information about financial performance, assets, liabilities, and risk exposures by banks is referred to as financial disclosure. The identification of risks, decision-making, and reduction of information asymmetry between banks and their stakeholders can be achieved through the implementation of proper financial disclosure (Ben Naceur & Goaid, 2020). NPLs may be boosted by external factors, such as interest rate swings, since higher interest rates can cause more borrowers to default (Owolabi & Longe 2023). Financial disclosure and interest rates are crucial factors in determining NPLs, yet Uganda's banking sector is not extensively researched on this matter. By examining the connection between interest rates, non-performing loans, and financial disclosure practices in commercial banks in Uganda to address this gap, this study is designed to help. By examining these relationships, the study hopes to provide useful information that could inform policies and strategies for improving financial transparency and decreasing NPLs in Uganda's banking sector, thus strengthening the stability of the financial system.

1.2 Problem statement

In developing economies like Uganda, commercial banks are still grappling with the issue of non-performing loans (NPLs), which has a significant negative impact on bank profitability and stability, as well as economic growth. Liquidity problems, reduced lending capacity, and increased operational costs are potential risks to banks due to high levels of NPLs (Owolabi & Longe, 2023). The rise in NPLs can be attributed to inadequate financial disclosure, which often results in information asymmetry between borrowers and lenders, making it difficult to identify risks associated with loan portfolios. (Hassan et al, 2021) Also, the issue can be made worse by changes in interest rates, as increasing charges on borrowers may result in higher default rates (Ben Naceur & Goaid, 2020). However, there is a lack of empirical research on the specific link between financial disclosure, interest rates, and NPLs in Uganda's banking sector (Mwebaze, 2023).

2.0 LITERATURE REVIEW

2.1 Theoretical review

A theoretical review is a systematic examination that provides an introduction to the fundamental concepts, frameworks, and theories of interest in the study. Different theories exist that can clarify the relationships among these variables when it comes to nonperforming loans (NPLs), financial disclosure, and interest rates in the banking industry.

Understanding financial disclosure practices in banks is facilitated by the study of agency theory. According to this theory, the conflict between the interests of agents and principals in banking is inherent. The true extent of bad loans or financial difficulties can be concealed by management in the case of NPLs, which can result in poor financial disclosure (Jensson & Meckling, 1976). On the other hand, banks that are transparent and properly reported on tend to reduce agency costs, such as hiding risks, while also allowing stakeholders to make informed decisions. Agency theory suggests that transparency in financial disclosure fosters collaboration between management and stakeholder interests, which in turn improves the bank's monetary health (Healy & Palepu, 2001). Additionally, NPLs are reduced. The significance of financial disclosure in shaping public perceptions about a bank's finances is explained by signaling theory. According to this theory, the actions of a bank, such as timely and transparent reporting, are indicators for the market and investors. Spence (1973) suggests that a bank's transparency in disclosing its financial policies, asset management plans, and loan evaluation can serve as an assurance to stakeholders that the bank is well-run and low-risk. Conversely, banks that conceal crucial financial details may give rise to investors and creditors who perceive the bank as insolvent, potentially resulting in higher NPLs (Diamond & Verrecchia, 1991). According to risk management theory, the role of appropriate risk assessment is to minimize the number of non-performing loans. This theory argues that effective risk management, such as credit risk assessments, loan monitoring and appropriate lending practices (Merton 1977), reduces defaults. By implementing strict risk management measures, banks are better equipped to assess the creditworthiness of borrowers and monitor loans closely, which can decrease the number of NPLs. Stakeholder trust can be established with financial disclosure of banks' risk management strategies, which can lead to a reduction in default rates (Moses, 2019).

The impact of changes in interest rates on loan repayment behavior is well-documented by interest rate theory. The rise in interest rates can lead to higher borrowing costs and potential increases in

NPLs, which may increase the ability of borrowers to repay their loans (Kiyotaki & Moore, 1997). On the other hand, lower interest rates can encourage borrowing without causing greater default risk in dire economic conditions. For this reason, it is important for banks to understand the impact of interest rates on financial disclosure and NPLs in order to manage loan portfolios effectively. The disclosure of interest rate fluctuations can provide market participants with insight into how a bank is handling its finances, potentially impacting loan performance (Bernanke & Gertler, 1995). Banks are expected to have a sufficient amount of capital to absorb losses incurred from non-performing loans, as per the Capital Adequacy Theory. Financial stocks and inadequate capital are both essential in preventing the bank from going bankrupt, as it is heavily burdened with NPLs (Basel Committee on Banking Supervision, 1988). The disclosure of certain loan losses based on capital adequacy ratios can also provide information about whether borrowers are adequately protected against defaults, such as the risk of default. Discrete disclosure of capital adequacy standards can boost investor confidence and mitigate the risks associated with non-performing loans (Demyanyk & Hasan, 2010). These theories serve as a comprehensive guideline for comprehending the intricate connections between financial disclosure, interest rates, and NPLs in the banking industry. To reduce NPLs and maintain the soundness of financial institutions, they emphasize the need for transparency, risk management, and overall financial stability.

2.2 Empirical Review

An empirical review examines past research and studies to evaluate the existing knowledge on a topic and its practical applications. In the context of non-performing loans (NPLs), financial disclosure, and interest rates, several studies have explored how these factors interrelate and impact the performance and stability of commercial banks. The role of financial disclosure in reducing the impact on non-performing loans has been highlighted by several empirical studies. For example, Akerlof (1970) in his "Market for Lemons" theory demonstrated that inadequate financial disclosure leads to information asymmetry, where lenders are unable to accurately assess the risk of loan default. Similarly, studies by Hassan et al. (2017) suggest that banks with higher levels of transparency in financial reporting tend to experience lower levels of NPLs, as effective disclosure helps identify risks and allows for timely interventions. In contrast, banks with poor financial transparency are more likely to encounter problems with loan defaults due to the lack of early warning signals, leading to a higher incidence of NPLs.

Empirical research has extensively examined the correlation between interest rates and Non-Performing Loans (NPLs). Multiple studies have shown a positive correlation between higher interest rates and an increase in non-performing assets (NPAs). For instance, Athanasoglou et al. (2008) found that in times of economic stress, rising interest rates place pressure on borrowers, making it more difficult for them to repay loans, thereby increasing the likelihood of defaults. Furthermore, Ben Naceur and Goaid (2008) observed that banks with higher interest rates on loans faced higher levels of NPLs, particularly in developing economies. In contrast, reduced interest rates may prompt more borrowing but can lead to defaults if the borrowers overestimate their ability to repay their loans. Consequently, it is important to carefully consider the adjustment of interest rates to avoid an increase in NPL levels. The enhancement of bank stability has been empirically linked to the use of financial disclosure. A study by Laeven and Levine (2009) demonstrated that banks with better financial disclosure practices tend to maintain stronger capital buffers and are better positioned to withstand financial shocks, reducing their vulnerability to NPLs. Banks with transparent financial policies, as evidenced in their disclosure reports, are less likely to experience significant losses from bad loans, as stakeholders can identify potential risks early and take corrective actions. On the other hand, banks with poor disclosure practices tend to face higher levels of risk, which, in turn, raises their chances of dealing with NPLs (Brealey et al, 2011).

A significant reduction in NPLs can be achieved through risk management practices, especially those related to credit risk. In their research, Munteanu et al. (2016) found that banks with strong credit risk management systems, such as regular inspections of loan portfolios and assessments of lenders, tend to have lower NPLs. According to the study, banks that use stress testing and systematic credit scoring models to evaluate loan risks are more likely to reduce defaults and mitigate the impact of non-performing loans. This finding highlights the need for effective risk management plans and transparent financial disclosure to address the issue of NPLs. A number of studies have examined the impact of regulatory frameworks on non-publicly funded organizations. In the context of strict regulatory oversight and transparency requirements, Salas and Saurina (2002) note that banks tend to demonstrate better management of NPLs. Risks are better understood and managed through the implementation of regulatory measures that mandate banks to disclose detailed financial information and comply with international accounting standards. In 1998, Demirgüç-Kunt and Detragiache discovered that countries with stricter banking regulations

experience fewer banking crises and lower NPLs due to the favorable regulatory environment promoting sound banking practices and greater financial disclosure.

Mwebaze's (2019) research indicates that financial disclosure practices in Ugandan banks are still evolving, with a significant number of banks failing to provide timely and accurate financial information. In Ugandan banks that were more transparent in their financial statements had a reduced incidence of NPLs, as per the study, which suggests that better financial disclosure could be an effective means of curbing defaults. Similarly, Okello's (2021) research has shown that interest rate changes and their impact on NPLs in Uganda, particularly for borrowers with variable interest rates on fixed-rate loans, were linked to periods of economic instability. This empirical review accentuates the importance of factors such as financial disclosure, interest rates, and risk management in determining the level of non-performing loans in commercial banks. Stakeholders can be alerted to early warning signals and risk reduction through transparent financial practices and sound interest rate policies, which are crucial in reducing NPLs. Further investigation is required to examine the specific dynamics in emerging economies such as Uganda, where financial disclosure practices are still evolving and interest rates continue to be a significant factor in loan repayment behavior.

3.0 METHODOLOGY

This study employs a mixed-methods approach to investigate the relationship between corporate governance practices and non-performing loans (NPLs) in Uganda's banking sector, integrating both quantitative and qualitative methodologies for a comprehensive analysis. The quantitative component involves purposive sampling of commercial banks in Uganda that have been operational for at least five years, ensuring a robust dataset for evaluation (Mugisha & Byaruhanga, 2019). Secondary data on NPL ratios and corporate governance practices are collected from annual reports, a structured questionnaire is distributed to 189 respondents including loans officers and credit clients to gather insights into governance mechanisms such as board structure, transparency, and accountability. Statistical analyses, including descriptive statistics, correlation analysis, and structural equation modeling were conducted using software such as SPSS and Smartpls to assess the relationships among the variables and to examine the mediating role of interest rates (Tumusiime, 2020). The qualitative component complements the quantitative findings through semi-structured interviews with key stakeholders, including bank executives and board

representatives were interviewed and data analyzed using content and thematic analysis with the help of NVivo software. This qualitative data is analyzed using thematic analysis to extract key themes related to governance practices and their influence on credit risk management (Ssemakula, 2023). Triangulation of the qualitative and quantitative results enhances the validity of the findings, providing a holistic understanding of how corporate governance affects NPLs in Uganda. Ethical considerations are maintained throughout the research process, with informed consent obtained from participants and assurances of confidentiality and anonymity for all data collected.

4.0 RESULTS

4.1 Descriptive statistics

Data collected from the respondents was analyzed descriptively using means and standard deviation to measure the level of response by the respondents on the study variables as presented below

Table 1. Descriptive Statistics on Financial Disclosure

Statements	N	Min.	Max.	Mean	Std. Deviation
Our bank discloses its financial polies for evaluating assets and liabilities	189	4	5	4.62	.487
There is timely reporting in our bank	189	4	5	4.57	.496
Management discussion and analysis section is catered for in preparation of financial reports	189	4	5	4.57	.496
Company is not currently under investigation for accounting irregularities	189	4	5	4.57	.496
Our bank provides comprehensive and meaningful notes to explain the numbers presented in financial statements	189	4	5	4.48	.501
Our bank prepares clear, concise financial statement according to relevant accounting standards	189	4	5	4.43	.496
There is transparency in disclosing transactions in our bank.	189	3	5	4.38	.577
Our bank practice segment reporting to show the performance of different segments	189	2	5	4.38	.724
Overall Mean and Standard Deviation	189			4.50	0.534

Primary data 2024

From table 1 above, the findings show that most of the respondents agreed that banks disclose their financial policies for evaluating assets and liabilities as indicated by high mean of 4.62 and supported by low standard deviation of 0.487, similarly, the respondents agreed that there is timely reporting in their banks as shown by high mean of 4.57 and confirmed by low standard deviation of 0.496. Furthermore, the findings show that management discussion and analysis section is catered for in preparation of financial reports as indicated by high mean of 4.57 and standard deviation of 0.496, in the same regard, the findings reveal that their banks are not currently under investigation for accounting irregularities. The results also show that banks provide comprehensive and meaningful notes to explain the numbers presented in financial statements as indicated by high mean of 4.48 and supported by low standard deviation of 0.501. The findings also show that banks prepare clear, concise financial statement according to relevant accounting standards as indicated by high mean of 4.43 and supported by low standard deviation of 0.496 and the findings further show that There is transparency in disclosing transactions in banks as indicated by high mean of 4.38 and low standard deviation of 0.577 and finally the findings reveal that banks practice segment reporting to show the performance of different segments as indicated by high mean of 4.38 and confirmed by low standard deviation of 0.724. The overall mean of 4.50 and standard deviation of 0.534 indicates that most of the respondents agreed with the statements that were used to measure financial disclosure

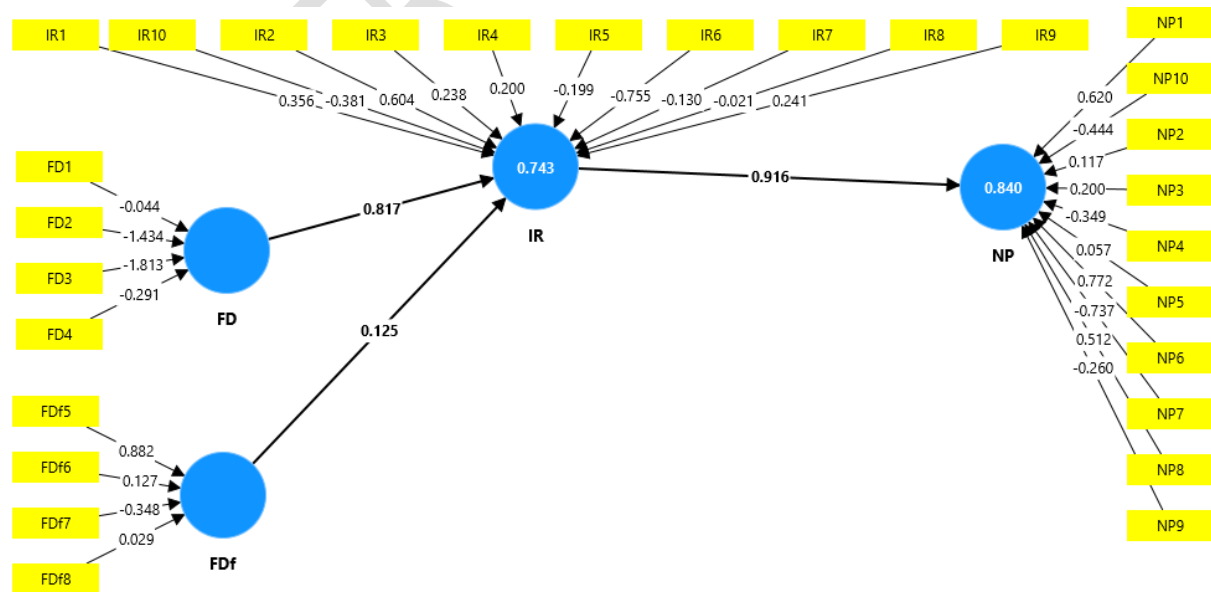
Table 1 Correlation Results on Financial Disclosure (FD) and Non-performing Loans (NP)

		NP	FD
NP	Pearson Correlation	1	.378**
	Sig. (2-tailed)		.000
	N	189	189
FD	Pearson Correlation	.378**	1
	Sig. (2-tailed)	.000	
	N	189	189

** . Correlation is significant at the 0.05 level (2-tailed).

From table 2 above, the results show that there is weak positive relationship between financial disclosure and non-performing loans of commercial banks ($r=0.378$, $P=0.00 < 0.05$). the relationship is statistically significant at 0.05, meaning that when members of the board disclose financial guidelines and policies, the non-performing loans of commercial banks reduces slowly and the reverse is true

4.3 Mediated Model for Interest Rates in Financial Disclosure and Non-performing Loans of Commercial Banks



CMIN= 166.113
NFI= 0.95>0.90
MRSR= 0.03<0.08
FD=.817, p=.000
FDf = .125, p=.404,
FD<>IR<>NP=.916, p=.000

Figure 1 Mediated Model for Financial Disclosure and Non-performing

This model presents the relationships between key variables within a well-organized system, outlining how each component affects the others. NPL(FD)'s transparent reporting has a strong connection weight of 0.817, which means that Interest Rates (IR) is the central node in the model and can be significantly affected. The weight of non-performing loans (NP) is extremely high at 0.916, and Interest Rates (IR) becomes highly related to interest rates (which increase with time). Smaller inputs with yellow labels shape each node. Nodes FD1 through FD4 have significant weightages associated with transparent reporting of NPL(FD), indicating both positive and negative impacts on the overall performance. The impact of indicators IR1 through IR10 on Interest Rates (IR) is diverse, with some weights, such as 0.356 being positive and others being negative like -0.381. Additionally, non-performing loan (NP) has connections with outputs NP1 to NP10, which have different weightages (0.620 and sometimes 0.444), indicating that certain output types can enhance non-performing loans (and occasionally hinder others). To test the model in SmartPLS, first define latent variables and their corresponding values, then map paths according to the structure of the network. The PLS Algorithm's execution resulted in path coefficients, R2 values, and model fit indices such as SRMR and NFI. The SRMR value was 0.03 less than the recommended value of 0.08, and the NFI value above 0.90 was typically considered to be in line with a good model fit.

4.3 Financial disclosure, Interest rates and Non-performing Loans

Table 2 Latent correlation between financial disclosure, Interest rates and non-performing loans

	Original sample (O)	Sample (M)	Standard mean deviation (STDEV)	T statistics (O/STDEV)	P values
FDf <-> FD	0.296	0.242	0.226	1.311	0.190
IR <-> FD	0.854	0.837	0.190	4.502	0.000
IR <-> FDf	0.366	0.308	0.288	1.271	0.204
NP <-> FD	0.777	0.756	0.187	4.154	0.000
NP <-> FDf	0.285	0.253	0.241	1.185	0.236
NP <-> IR	0.916	0.909	0.130	7.030	0.000

This table provides detailed statistics (including original sample, sample mean, STEV), t-statistics and p-values) for each pair of latent variables by analysis. These values can be utilized to gauge the strength, variability, and significance of the connections between the variables.' The relationship is moderate, starting with the pair of accurate valuation (FDf) and transparent reporting (TDF), with a original sample value of 0.296 and calculating 0.387 from 0.482 and measuring the mean using 0.72). Significant variation in the measure is evident across the sample, as demonstrated by a high standard deviation of 0.226. With a p-value of 0.190, the relationship with t-statistics is 1.311. The data shows that there is no statistically significant relationship between FDf and DF, so the correlation between transparent reporting and accurate valuation is inconclusive within this dataset.

Conversely, the correlation between FD and pair interest rates (IR) is significantly stronger, with an original sample correlation of 0.854 and a sample mean of 0.866. The standard deviation of 0.190 is a slight variation, but not the highest. With a t-statistic of approximately 4.502 and an associated probability of error of 0.000, it is evident that interest rates are positively related to transparency in reporting. The correlation between interest rate changes and transparent reporting methods is strong across the sample. However, the relationship between interest rates (IR) and accurate valuation (FDf) is weaker. There is a 0.366 correlation in the original sample and 0.208 in mean, with high standard deviation (0.288). Given that the p-value for this pair is 0.204, and the

correlation has been established to be statistically unimportant, the relationship's overall t-statistics is 1.271. While there is a correlation between interest rates and accurate valuation, it's not clear how to make precise judgments from this dataset.

In the original sample, there is a positive correlation of 0.777 between non-performing loans (NP) and transparent reporting (FD), while the average was also 0.756. There is some variation in the standard deviation, but it remains relatively consistent at 0.187. The significance of the t-statistics' correlation, which shows a positive relationship between transparent reporting and non-performing loans in the banking industry, is evident with its p-value of 0.000 and smallest value of 1.15. However, the relationship between NP and Fd (correct value) is significantly less corroborated, with an original sample correlation of 0.285 and another sample mean of 0.253. The standard deviation of 0.241 indicates a level of variation. The relationship isn't statistically significant with a t-statistic of 1.185 and p-value of 0.236. This means that non-performing loans in this dataset are not directly affected by accurate valuation.

One of the strongest correlations in the table is between NP and IR, which have an original sample value of 0.916 and mean but are still relatively similar. When comparing different samples, the correlation measure is highly consistent, with a standard deviation of 0.130. Similarly, changes in interest rates are statistically significant when non-performing loans change at a given time (t-statistics = 7.030 p-value=0.000). All in all, the results show that some connections within this dataset are very robust and statistically significant. Specifically, the correlations between interest rates (IR) and transparency reporting (FD) have implications for both NP and particularly: IR. However, there are other relationships, such as those between Fd and NP, or between NP and FD, that lack strong or significant relationship. Therefore, the hull hypothesis which states that there is no mediating effect of interest rates on financial disclosure and non-performing loans of commercial banks was partially rejected and partially accepted. This implies that when the board perform their role of financial disclosure in terms of transparency in fixing the interest rates and transparency in disclosing issues related to loans, non-performing loans of commercial banks reduces and the reverse is true. However, in relation to financial disclosure in terms of accurate evaluation, the findings indicates that its not affected by interest rates.

4.4 The perceived understanding of Financial Disclosure and Non-performing Loans of Commercial Banks

This section presents the interviewees' perceived understanding of financial disclosure and non-performing loans of commercial banks. To obtain a clearer picture, the interviewees were asked to answer each of following questions (*What kind of internal control has the board institute to prevent and solve the problem of non-performing loans 2. In your opinion, do you think there is transparency in giving out loans to the clients? If yes, how? 3. What efforts have the board put in place to ensure that the internal controls in relation to giving out loans are sound and working?*) and the themes and sub themes generated were presented in the figure below;

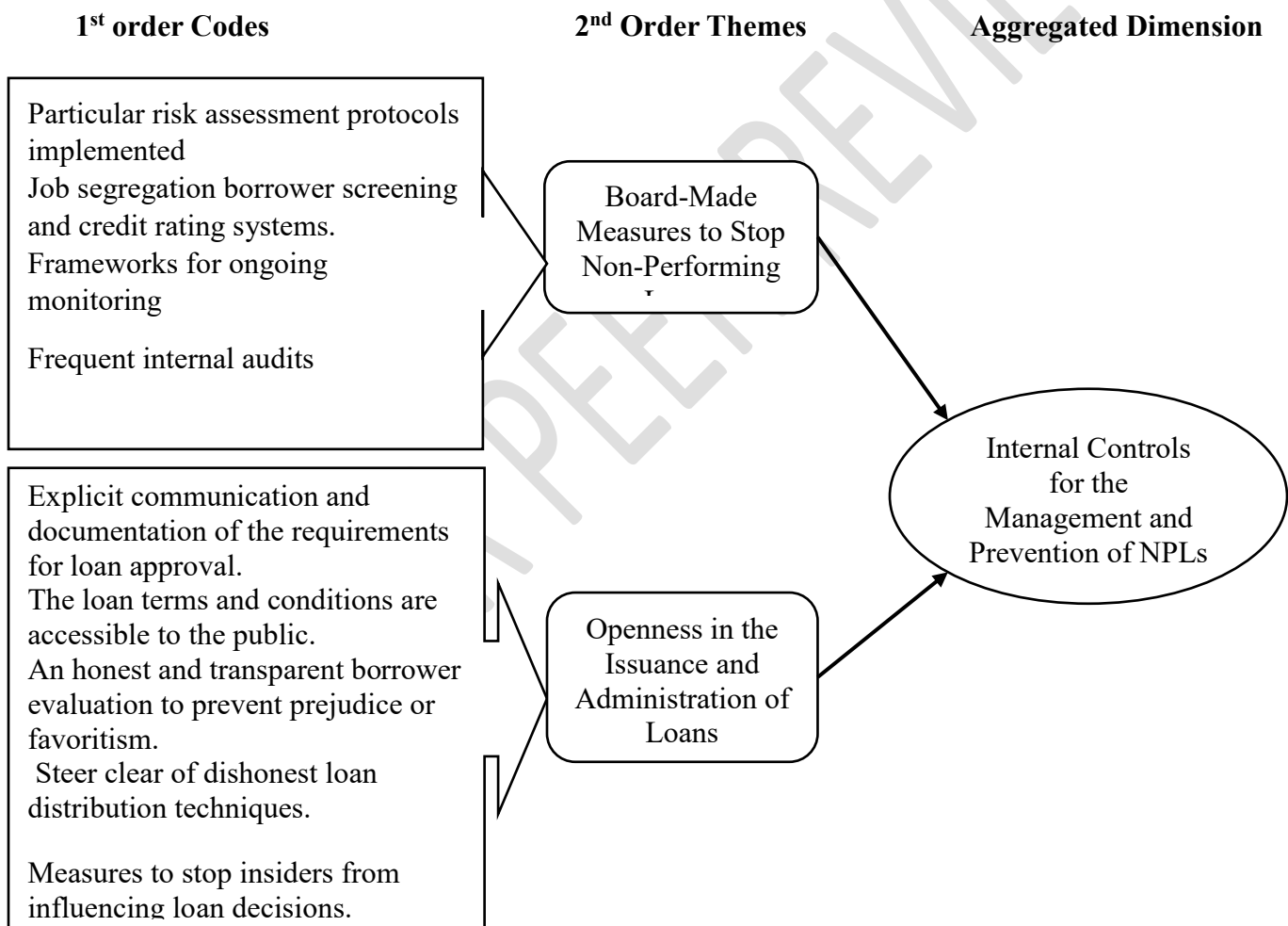


Figure 2: Reality Radial Diagram on Financial Disclosure and Non-performing Loans

The results reveal that, generally, interviewees perceived financial disclosure and non-performing loans of commercial banks as Internal Controls for the Management and Prevention of NPLs. On

analyzing the transcripts from qualitative interviews, it was established that two major sub themes emerged to mean internal controls which are: Board-made measures to stop non-performing loans and openness in the issuance and administration of Loans One of the main themes that emerged was the extent of board to establish Internal Controls for the Management and Prevention of NPLs, with interviewees stating that in most cases, members of the board put in place mechanisms and controls to manage and prevent non-performing loans and ensuring that the internal controls instituted are adhered to by management and this reduces non-performing loans

The board took action to prevent non-performing loans by implementing specific risk assessment procedures, job-segregating borrower screening and credit rating systems, frameworks for continuous monitoring, and regular internal audits, according to an analysis of the scripts. The majority of interviewees emphasized that lowering non-performing loans requires having rules and processes in place to guarantee that loans are granted in accordance with them. But occasionally, management disregards the directives, and as a result, non-performing loans occur. After analysis transcript, it was established that to fight non-performing loans, there is a need for transparency in administering loans by explicit communication and documentation of the requirements for loan approval, the loan terms and conditions are accessible to the public, an honest and transparent borrower evaluation to prevent prejudice or favoritism, steer clear of dishonest loan distribution techniques and measures to stop insiders from influencing loan decisions. All these ensures that loan information is available to all stakeholders and this in turn reduces non-performing loans

5.0 DISCUSSION OF RESULTS

The discussion of outcomes involves clarifying and contrasting the results, comparing them with published literature, and considering implications for both theory and practice. A positive but weak relationship between financial disclosure and non-performing loans (NPLs) has been identified in the study, with a correlation of 0.378. This implies that NPLs can be reduced with greater financial transparency, although at a slower pace. The high mean values for various aspects of financial disclosure, such as asset and liability evaluation, timely reporting, and clear financial statements, are consistent with previous research that has shown that transparency in financial reports can decrease the risks associated with loan defaults (Hassan et al. 2017). However this is not entirely unfalsified. However, this comparatively low correlation might suggest that financial disclosure is

one factor in improving bank performance and may also affect the level of NPLs depending on various factors such as economic conditions, loan quality, and risk management practices. The outcomes suggest that financial disclosure may not be an effective means of cutting down NPLs without addressing other complementary factors. The correlation between interest rates and NPLs is significant and statistically significant, with a value of 0.916. This suggests that changes in interest rate are strongly linked to the level of NPLs. This finding is in agreement with interest rate theory, which posits that higher interest rates lead to increased default rates among borrowers (Ben Naceur & Goaid, 2008). This high correlation implies that, when interest rates rise, it becomes more difficult for the borrowers to meet repayment schedules and thus increases the probability of defaults. The data is not reliable. In addition, this matches the evidence of Athanasoglou et al. (2008), who also noted that rising interest rates under economic strain lead to an increase in NPLs. Why is this so? These results highlight the need to carefully control interest rate changes to avoid escalating risk of loan defaults.".

In the mediated model, the relationship between financial disclosure (FD) and non-performing loans (NP) is shown to be influenced by interest rates (IR), with a high path coefficient of 0.916. The study concludes that these findings support this notion. While financial disclosure may enhance transparency and help reduce NPLs, the impact of interest rates on disclosure is tempered or magnified. The main point: The results indicate that the correlation between NPLs and financial disclosure is more significant when interest rate regulation is properly managed, emphasizing the interdependence of these factors. The fact that the correlation between financial disclosure and NPLs is not significantly impacted by interest rates indicates the intricate nature of the financial ecosystem, with certain aspects being affected by these rates but not others. Strong risk management and financial disclosure practices are strongly associated with lower NPLs in banks. What is the significance of this? The results of Laeven and Levine's (2009) study indicate that banks can effectively manage risk by using transparent risk management methods, which helps them avoid loan defaults. Banks that have well-structured and auditable financial statements are more adept at identifying and managing risks in their loan portfolios, which can help them reduce the number of NPLs. Despite the fact that financial disclosure appears to be linked to better risk management, the results indicate that other factors, such as borrower behavior and broader economic conditions, may also impact the effectiveness of these practices in reducing NPLs.

Impacts on Ugandan Banking Sector: Findings from the study offer practical recommendations to improve financial transparency and tackle the growing problem of non-performing loans in the banking sector. Financial disclosure practices in Uganda are still being refined (Mwebaze, 2019), and increasing transparency could result in improved accuracy of risk assessment and loan performance evaluation. The findings suggest that the strengthening of financial disclosure requirements and the promotion of transparent reporting practices are essential for addressing information asymmetry in Uganda's banking sector. This would lead to greater stability within the banking industry. Furthermore, given the ongoing influence of interest rates on loan defaults, these results highlight the importance of careful control over interest rate regimes to avoid undue financial pressures on borrowers in an economic climate where uncertainty exists. The study's findings suggest that the level of non-performing loans in commercial banks is influenced by factors such as financial disclosure, interest rates, and risk management. This is consistent with the current research. Although financial disclosure can help reduce NPLs and enhance transparency, interest rates seem to have a greater influence on loan performance.

6.0 CONCLUSION

In summary, the findings of this study highlight the importance of effective financial disclosure practices in managing non-performing loans (NPLs) within the banking industry, particularly in Uganda. The results indicate that a decrease in NPLs is associated with greater transparency in financial reporting, which includes the transparent disclosure of loan terms and interest rates. Additionally, While the relationship between financial disclosure and NPLs is not highly positive, it's statistically quite strong, suggesting that heightened transparency can gradually improve the financial health of commercial banks by decreasing the risks associated with non-performing loans. Furthermore, the research highlights that interest rates play a crucial role in mediating the connection between financial disclosure and NPLs. This implies that banks must not only ensure transparent financial reporting but also take steps to control interest rates and minimize the occurrence of NPLs. These findings underscore a crucial need for financial disclosure to be both transparent and accurate valuation practices, in order to ensure financial stability. The study indicates that NPLs are not significantly impacted by interest rates, but the correlation between accurate valuation and NPLs is less clear, suggesting that other factors may be involved. Therefore,

commercial banks should promote transparent financial operations and effective control of interest rates as a means to decrease NPLs. Overall, this study provides valuable insights into the dynamics of financial disclosure, interest rates and NPLs with implications for banking policy and practice.

7.0 RECOMMENDATIONS

Commercial banks in Uganda should focus on improving financial disclosure practices to manage non-performing loans (NPLs). The task requires the explicit definition of financial regulations, loan benchmarking, and asset-liability management plans. Reporting financial information at the appropriate time and date is essential in identifying potential risks and preventing NPLs. Moreover, banks must enforce transparent loan policies and interest rates, guaranteeing that borrowers are fully informed of the loan terms to avoid potential defaults. In addition, the management of interest rates is crucial as it was discovered to have a substantial effect on how financial disclosure is related to NPLs. To reduce the risk of defaults, banks can adjust interest rates to cope with current economic conditions and ease repayment pressures on borrowers. Additionally, banks must develop their risk management systems by enhancing credit risk assessments and utilizing predictive models to more accurately predict loan defaults. According to the study, NPLs are impacted less by accurate valuation practices, but it is crucial to maintain asset valuations in accordance with international accounting standards for financial stability. To this end, governing bodies must strengthen policies that promote accountability and transparency within the banking industry. Additionally, banks should invest in enhancing their loan portfolio by training staff on financial disclosure practices and NPL management to improve overall loan performance. Together, these actions will help reduce national personal liability liabilities (NPLs), improve the stability of Uganda's banking sector and stimulate economic growth.

DISCLAIMER (ARTIFICIAL INTELLIGENCE)

Authors are hereby declaring that NO generative AI technologies such as Large Language Models and text-to-image generators have been used during writing or editing of this manuscript.

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