

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

ABSTRACT

The research examines the correlation between non-performing loans (NPLs) in Uganda's commercial banking sector and financial disclosure (FD), with attention to IR. A mixed-method study was conducted using survey data from 189 banking professionals, which contained descriptive statistics (means and standard deviations) combined with Pearson correlation analysis. SmartPLS was utilized to conduct research on the role of interest rates in shaping the relationship between FD and NPLs using Structural Equation Modelling (SEM). This indicates that there is a small but significant positive relationship between FD and NPLs ($r=0.378$, $p<0.05$), suggesting that the more financial reporting is transparent, the lower the number of NPLs become. Interest rates play a significant role in shaping this connection, with the highest connection weight between IR and NPLs (0.916). This also showed that FD and NPLs were strongly negatively associated ($r=-0.777$, $p=0.000$), suggesting the need for transparent reporting to mitigate the risk of such NPLs. The findings highlight the importance of interest rate policies and financial transparency in managing NPLs, providing valuable information for banking regulators and policymakers. 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).

There is still no clear understanding of how commercial banks' interest rates, financial disclosures, and NPLs are related to non-performing loans (NPLs) in Western Uganda. The literature on macroeconomic determinants of NPLs, such as interest rate fluctuations, is extensive and often limited to generalized economies or global trends, rather than delving into localized banking dynamics (Alnabulsi et al, 2023; Bank of Uganda, 2020). High interest rates have resulted in higher NPL ratios than other financial disclosure practices. Still, the mechanisms by which these rates

mediate against credit risk reduction are not well understood in the Ugandan banking sector. Also, while financial disclosure's role in mitigating NPL is mostly studied in developed economies or stable financial systems, little is known about its effectiveness in developing economies with weaker financial infrastructure (Malik et al, 2023).

In a country such as Uganda, where the banking sector invests heavily in government securities and lending conditions are highly volatile, the intersection of interest rate policies with disclosure requirements is particularly important for credit risk management. Recent studies do not incorporate these contextual variables into comprehensive models, which limits useful insights for policymakers and financial institutions in comparable economic contexts (International Growth Centre, 2023). A significant shortcoming is the insufficient exploration of how sector-specific risks, particularly those in Western Uganda's agriculture industry, impact financial disclosure frameworks and interest rate changes. Empiric studies on NPL data for agricultural sectors, which are particularly vulnerable to high borrowing costs, are not often conducted. The objective is to assess the impact of interest rates and reporting practices on default risks in Uganda (Bank of Uganda, 2023).

Exceptional practices hinder targeted measures that could resolve credit-related issues in specific sectors. Despite the progress in financial technologies and regulatory frameworks, there is a lack of research on how they affect interest rate sensitivity and disclosure transparency in Uganda. The BoU's liquidity coverage ratios and capital adequacy standards have been implemented, but their ability to restrict NPLs under different interest rate scenarios is mostly coincidental (Malik et al, 2023). By utilizing recent empirical evidence, we can address these gaps and enhance the practical resilience of Uganda's banking sector by pushing forward the literature.

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 national private pensions (NPLs). Alnabulsi et al, (2023) noted that "strong macroeconomic changes, including shifts in interest rate, directly affect the quality of assets and require vigorous credit risk management practices to avoid systemic crises.". The BoU in Uganda pointed out that a rise in interest income during 2023-2024 is linked to stricter credit

screening measures, which help reduce the likelihood of default. NPLs are negatively impacted by high-interest rates, which is why effective financial disclosure practices play a crucial role. Banks can effectively anticipate and manage credit risks by utilizing transparent financial reporting. Research carried out in Sub-Saharan Africa indicates that banks with advanced disclosure mechanisms exhibit greater resilience when dealing with NPLs, as these disclosures help to boost stakeholder confidence and ensure compliance with regulatory requirements (Malik et al. 2023). Banks in Uganda that adhered to stricter disclosure protocols observed a significant decrease in their NPL ratios during times of economic instability (Bank of Uganda, 2023; Alnabulsi et al, 2023).

Interest rates, financial disclosures, and NPLs are further impacted by the regulatory context. The BoU's capital adequacy frameworks are an example of regulations that ensure banks have strong liquidity positions to manage against economic shock. BoU figures for 2023 indicated that the adherence to enhanced liquidity coverage ratios was crucial in protecting Ugandan banks from a significant increase in NPLs, even as global interest rates rose (Bank of Uganda, 2022). Research indicates that frameworks and strong financial disclosures are essential in stabilizing the financial industry (Malik et al, 2023). The nuanced impact of interest rates on credit performance is emphasized in Western Uganda due to sector-specific dynamics. Variables in interest rate are particularly sensitive on agricultural loans, which form a large part of the region's credit portfolio. The sector's borrowers are disproportionately affected by rising rates, which in turn leads to higher default rates. The implementation of strict financial disclosure protocols by banks can enable them to better manage risks by offering comprehensive insights into portfolio performance and sectoral vulnerabilities (Bank of Uganda, 2023)

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.

4.0 RESULTS AND DISCUSSION

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

UNDER PEER REVIEW

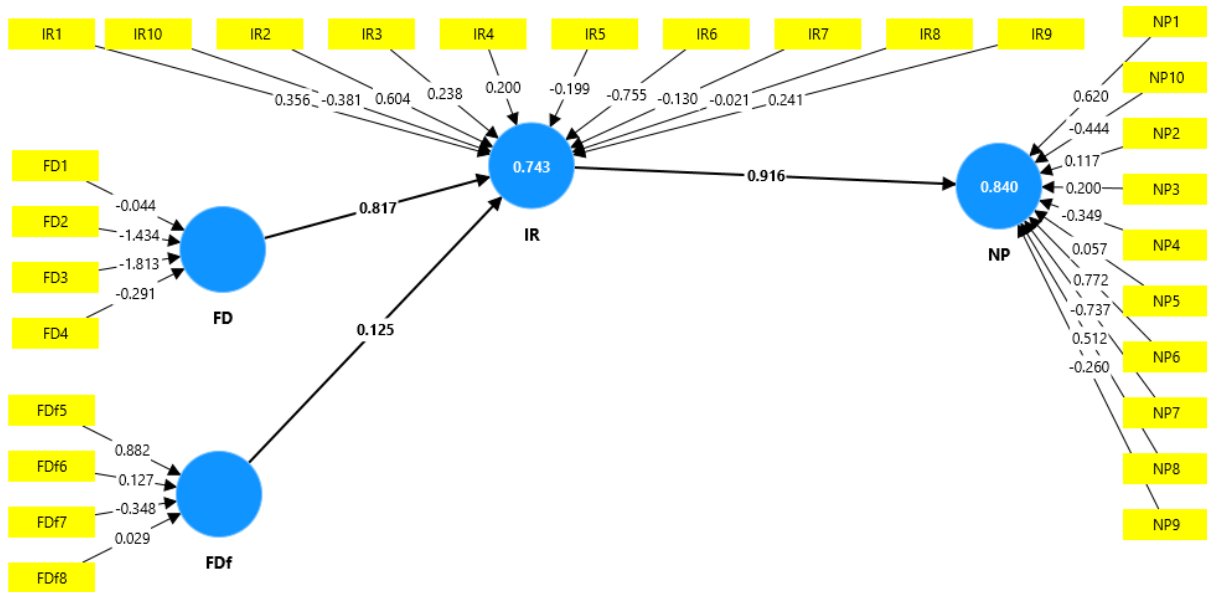
Table 1 Correlation Results on Financial Disclosure (FD) and Non-performing Loans (NP)

		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. 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

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.

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 rises, 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 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. 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.

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 it's not affected by interest rates.

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.

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;

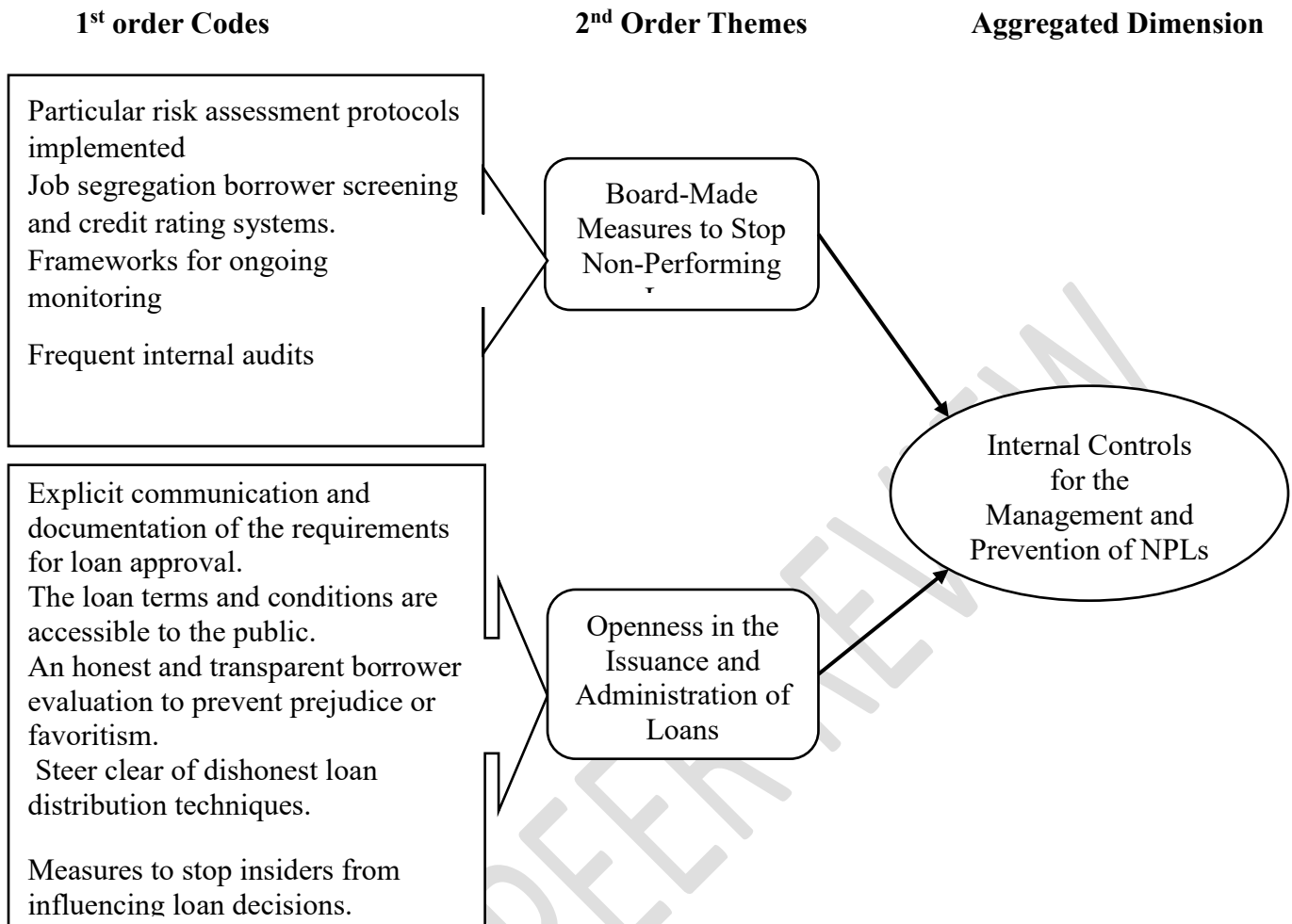


Figure 2: Reality Radial Diagram on Financial Disclosure and Non-performing Loans

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 CONCLUSION

This study highlights the importance of effective financial disclosure practices in managing non-performing loans (NPLs) in Uganda's commercial banking sector. They also show how the more financial reporting is transparent - including clearly outlining terms of loans and interest rates – the less NPLs are deflated over time. Although the correlation between NPLs and financial disclosure is insignificant ($r=0.378$), it's statistically significant and suggests that heightened transparency can lead to better financial health by mitigating NPA risks. Moreover, interest rates played an essential role in mediating this relationship, as it was crucial for banks to maintain transparency in their reporting and implement effective interest rate policies. It also identifies some ambiguities, including the less clear connection between correct valuation practices and NPL's, suggesting other factors may influence NPA decisions. Additionally, the outcomes demonstrate that while interest rates have an indirect impact on NPLs through financial disclosure, their direct influence isn't significant.

6.0 RECOMMENDATIONS

Transparent and accurate financial reporting is essential for commercial banks to manage NPLs effectively. Explicit disclosure of loan terms, interest rates and associated policies is necessary to ensure that the borrowers fully understand their obligations. Improved transparency fosters trust and reduces miscommunications that could result in defaults. Also, financial institutions ought to establish strong regulations for controlling interest rates by focusing on sustained stability to avoid

sudden increases in rates that could cause strain on borrowers and further increase loan defaults. Equally important is the implementation of training programs that equip bank employees with practical knowledge on financial disclosure and risk management, which will contribute to a stronger sector. Rather than solely focusing on interest rates and financial disclosure, future research should explore other variables such as borrower profiles, economic trends, and regulatory conditions to gain a more comprehensive understanding of NPL dynamics.

7. LIMITATIONS.

This research contains certain drawbacks that should be taken into account when interpreting its findings. Self-reported survey data can lead to biases in the responses they give and potentially compromise the accuracy of the results.... Moreover, the research only looked at commercial banks in Uganda so could not draw conclusions elsewhere or in banking systems.' Moreover, the research focused on only a select few variables and did not consider more general macroeconomic or industry-dependent factors that might have an effect on NPLs.

8. DISCLAIMER (ARTIFICIAL INTELLIGENCE)

Author(s) hereby declares that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc.) and text-to-image generators have been used during the writing or editing of this manuscript.

9. Ethical Approval:

Ethical considerations are maintained throughout the research process, with informed consent obtained from participants and assurances of confidentiality and anonymity for all data collected.

- RESEARCH ETHICS COMMITTEE (REC) ref no: KUI-2024-356
- UNCST ref no: S3114ES

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