Determining the Latent Correlation of Financial Disclosure and Non-Performing Loans of Commercial Banks in Western Uganda using Structural Equation Modelling

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Abstract

Non-performing loans have been an issue that has hampered the functioning of commercial banks across the world. Using the liability management theory to evaluate the impact of financial transparency on non-performing loans of commercial banks in Western Uganda. A mixed-method approach was used. A sample of 232 respondents was obtained from a population of 550 persons using stratified, purposive, and simple random sampling methods. There were 195 responses from three commercial banks, yielding an 84.1% response rate. The hypotheses were examined, and the results demonstrated a substantial positive association between financial transparency and non-performing commercial bank loans. Six participants were carefully chosen from three commercial banks and interviewed utilizing interview guidelines. Using Nvivo software and Miles & Huberman (1994) approaches, interview data was managed and analyzed, which revealed that that commercial banks are not currently under investigation for accounting irregularities, they were also practicing segment reporting to show the performance of different segments, there was also transparency in disclosing transactions in banks, there was also timely reporting, and finally management discussion and analysis. The conclusion was that banks had internal controls for the management and prevention of NPLs, and board members had put in place mechanisms and controls to manage and prevent non-performing loans, but some of the internal controls instituted were not followed by management, causing commercial banks to continue to have non-performing loans. Based on the study's findings and conclusions, the study recommends that commercial banks implement strong internal control systems to enable them to deal with loopholes that result in non-performing loans, as it has been discovered that having good financial disclosures in place, such as internal controls, reduces loan performing loans and the reverse is true.

Key Words: Commercial Banks, Financial Disclosure, , Latent Correlation, Non-performing loans

1. Introduction

The literature lacks a clear definition of NPLs. Previous studies have outlined NPLs according to their specifications (Rehman et al., 2016). NPLs are loans that have not been repaid but still have a 90-day grace period remaining beyond their maturity date when complete collection of principle and interest in compliance with the loan or advances in issue is no longer possible, loans or advances are said to be NPLs (Rehman et al., 2016). There are three kinds on non-performing loans, for example, Payments that are 90 days past due are regarded as fair, those that are 180 days past due as dubious, and those that are a year past due as losses (Wood, 2018). Additionally, for MFBs (Micro Finance Banks) and commercial banks that provide consumer financing, a loan is deemed non-performing if it is not repaid within 30 days of the due date(Parvin, 2023). Loans that have not received maintenance for at least 90 days are classified as non-performing loans (NPL) (Rezina et al., 2020). It is a debt that has defaulted or is about to default, in other words(Rezina et al., 2020).

Globally, a non-performing loan is one in which interest and principal payments are more than 90 days late or more than 90 days' interest has been refinanced. The viability of banks is heavily jeopardized by loan default (Pani, 2022). These poor loans cost banks money because of the impact they have on the quality of their asset portfolio and profitability. This is in accordance with banking regulations, which compel banks to make

provisions for non-performing loans and charge for bad loans, both of which lower their income and loan portfolio(Rezina et al., 2020). Non-performing loans as a percentage of total loans are 24.6% for Ireland, 31.3% for Greece, 9.5% for Egypt, 6% for Russia, 3.6% for South Africa, 3.2% for the USA, 2.9% for Brazil, and 1% for China (Constraints, 2015). The concept of governance has been applied in both economics and law for centuries and it has been understood to mean enforcement of contracts, protection of property rights and collective action (Slaev, 2020). In fact, governance is associated with people operating within organizations. Organizations allow for achieving outcomes beyond the reach of a single person (Slaev, 2020). Nevertheless, organizations must be governed properly in order for them to achieve their objectives.

2. Literature Review

Akter and Hossain (2021) investigated whether certain characteristics of the audit committees of Bangladesh's publicly traded banks might be used to explain the amount of non-performing loans (NPLs). A panel data set containing 250 bank-year observations for the years 2013 to 2017 was used in this study, and it included all 30 listed banks. The impact of various audit committee characteristics on NPLs was investigated using the random-effects GLS regression model with cluster robust standard error and AR (1) disruption. The study discovered that frequent audit committee meetings and a larger proportion of independent members in the audit committee help to minimize NPLs. Findings, however, provide no conclusive proof that the other audit committee characteristics evaluated (audit committee size, financial experience and financial literacy of the audit committee members, and professional credentials of the audit committee Chairman) had an impact on the reduction of NPLs. Their study was done on banks in Bangladesh and used random-effects GLS regression model and this raises contextual and methodological gap in a sense that the current study will be carried out on Ugandan banks and will use multiple regression to determine the effect of internal auditing on non-performing loans

Banks must thoroughly evaluate potential borrowers' ability to repay the loan; otherwise, there is a risk of extending credit to possible defaulters (Balagobei 2019). Similar to this, if banks extend credit unethically, such as by providing an unjustified favor to further their own interests or accepting bribes from borrowers, there is a high likelihood that the amount of NPLs will rise, creating agency issues that will harm the interests of shareholders (Mees and Smith 2019). According to Khan and Ahmad (2020), an independent audit committee keeps an eye on a bank's financial reporting, internal controls, and risks to lessen agency issues with dishonestly issuing credit and anticipating a negative association between an independent audit committee and NPLs. By performing an empirical analysis on 86 banks listed on the stock markets in Pakistan, India, and Bangladesh during the years 2006–2016, Ali (2018) confirmed theoretical relationships. Al Zobi, Mo'taz Kamel; Shubita, Mohammad Fawzi; Alomari, Mazen; Almatarneh, Zeyad Soliman; and Alrawashdeh (2019) found a similar correlation between audit committee independence and credit risks in 13 Jordanian commercial banks for the years 2009 to 2016. However, their study only focused on commercial banks from Asia and this raises a contectual gap since the current study is focusing on commercial banks in Uganda and also they only focused on independence of audit committee and this study will look at internal audit as a whole and this also raises conceptual gap

The growing trend of non-performing loans (NPLs) in Bangladesh's banking industry exemplifies a widespread issue of loan default that mostly results from borrowers' propensity to fail on their debts, who are often members of the socially constituted upper class(Jahan & Shahidullah Tasfiq, 2022). An adequate governance and control architecture, together with the culture of loan default, may successfully manage this rising NPL trend. Sen, Ghosh, and Population (2022) examined the effects of audit committee independence, director ownership, external audit quality, CEO authority, and bank size on the management of non-performing loans (NPLs) in light of this context. The results highlight the significance of audit committee independence, director ownership, and external audit quality in controlling NPLs after identifying two endogenous variables in a system of linear equations and applying the system generalized method of moment (GMM) approach of regression analysis. This study, however, discovers no discernible effect of CEO power on reducing NPLs. NPLs are not linearly affected by Bank Size, assessed in a relative sense. This study raise methodological and conceptual gaps as the current study will use multiple regression and relate transparency and internal control to non-performing loans of commercial banks.

Statovci, Ahmeti, and Aliu (2021) determine how internal banking controls affect the amount of non-performing loans in Kosovo banks as mediation factors, linear regression model and mediation analysis are the research technique employed in this work and findings show that lending interest rates have a considerable impact on non-performing loans, whereas the three mediator variables such as detective work, preventative measures, and corrective action have an impact on lowering non-performing loans. Preventive control serves as a mediator and has the greatest indirect impact on lowering NPLs. By incorporating the recommendations of Circular No. 2011-06 released on 20 May 2011 by the Tunisian Central Bank, Saada (2015) intended to investigate the extent to

which the control quality effects non-performing loans (NPLs) of Tunisian listed banks. Design, technique, and strategy the presence of foreign directors on the board of Tunisian banks is shown to increase credit risk using regressions utilizing panel data that are applied to a sample of 11 listed banks between 2010 and 2015. These administrators have greater authority than institutional administrators or state officials because of their knowledge, independence, and access to new technologies. The risk committee outperforms the audit and credit committees in terms of lowering non-performing loans, and by incorporating the Central Bank's guidelines, it is possible to empirically test the effect of control quality on NPL and identify effective ways to improve banking governance practices.

Since the year 2000, Good Corporate Governance (GCG) has been implemented in Indonesia. One of the foundational elements of the economic market system is good corporate governance (Pani, 2022). The GCG application offers a chance to develop and establish a favorable environment for business development and investment(Jahan & Shahidullah Tasfiq, 2022). This way of thinking makes the GCG implementation by Indonesian banks a crucial problem for achieving economic success. Naji and Syed Shabib – Ul - Hassan (2023) carried out study aimed at collecting empirical data on GCG characteristics, as well as other regulatory-driven factors such bank size, capital adequacy ratios, and non-performing loans (NPLs), Secondary data from 30 banks that are registered with BEI for the years 2011 to 2015 is the source of the data. The findings indicate that the Capital Adequacy Ratio, Managerial Ownership, and Bank Size then influence positively and significantly on financial performance while other variables NPL have a negligible impact and Committee Audit have a positive but negligible impact on banking financial performance, according to the research. Their study did not look at the influence of interest rates on corporate governance practices and non-performing loans and this raises conceptual gap and also the study only considered banks in Indonesia which raises contextual gap since the current study will focus on commercial banks in Uganda.

With regard to raising savings, reducing the risk of moral hazard and adverse selection, allocating resources to the most fruitful projects, and risk diversification, the banking sector is crucial for a number of macroeconomic and microeconomic variables(Akter & Hossain, 2021). Therefore, the banking system must operate efficiently, especially in growing and developing nations (Statovci et al., 2021). With the use of the system GMM dynamic panel data estimator, Bayar (2019) investigates the macroeconomic, institutional, and bank-specific variables that contribute to nonperforming banking loans as a measure of the health of the banking system in emerging market nations between 2000 and 2013. According to the results of the dynamic panel regression analysis, nonperforming loans were negatively impacted by economic growth, inflation, institutional development, return on equity and assets, regulatory capital to risk-weighted assets, and noninterest income to total income, whereas they were positively impacted by unemployment, public debt, credit growth, lagged values of nonperforming loans, cost to income ratio, and financial crises. The connected literature mentioned above demonstrates that despite much effort on the part of researchers to link internal controls, transparency, and non-performing commercial bank loans, contextual and conceptual gaps still remain. No study was conducted inside the Ugandan setting, contextually speaking. The concept of transparency being a corporate governance guideline was neglected in all research. These discrepancies necessitate the need for this study, which will focus on Uganda, to establish the link between internal controls, transparency, and non-performing commercial bank loans.

3. **Methodology**

The study adopted the cross-sectional research and correlational research designs. Sekara (2003) defines a cross-sectional research design as the one in which data is collected once over a period of days, weeks or months in an attempt to provide answers to a research question. The cross-sectional design allowed collection of data using different modes of data collection such as self-administered questionnaires and face-to-face interviews (Lavrakas 2008). Still, the study being cross-sectional, data gathered represented what was going on at a particular point in time thus helping to obtain useful data in a relatively short period saving time and costs of data collection (Moule& Goodman 2009). With respect to the correlational design, this involved exploration of the correlation between corporate governance practices and non-performing loans of commercial banks. Quantitative data was the basis for drawing statistical inferences by relating the independent and dependent variables. The population of the study was 550 comprising Bank managers, board representatives, loans officers and credit clients from three commercial banks in Western Uganda. Hence, these provided appropriate data and was collected using a questionnaire and interview guide.

After the data has been collected, the researcher first carried out data processing. The processing of quantitative data involved coding, entering the data into the computer using the Statistical Package for Social Sciences (SPSS 24.0), summarising them using frequency tables to identity errors and editing them to remove errors (Greasley 2007). Quantitative data analysis involved calculation of descriptive statistics and frequencies for descriptive analysis. For inferential statistics, correlation and regression analysis was used in the testing of hypothesis at 5%

level of significance (Simpson, 2015). The qualitative data collected was coded and grouped according to the study objectives and emerging themes. Analysis was done out through discursive and thematic methods (Kohlbacher 2006). The discursive method considered detail of the text, interpreting the analysed text and attributing meaning. Parametric tests were done to prepare data for further analysis as follows;

3.1 Homoscedasticity

Pallant (2011) also indicates that for all forecast scores the variance of residuals should be the same in forecast dependent variable scores and it should appear linear and uniformly without funneling and If in the spread plot Funneling is not shown, the data would not break the homoscedasticity assumption. This was done with the help of SPSS and the results presented in the histogram, normal P-P plots and scatter plots as below
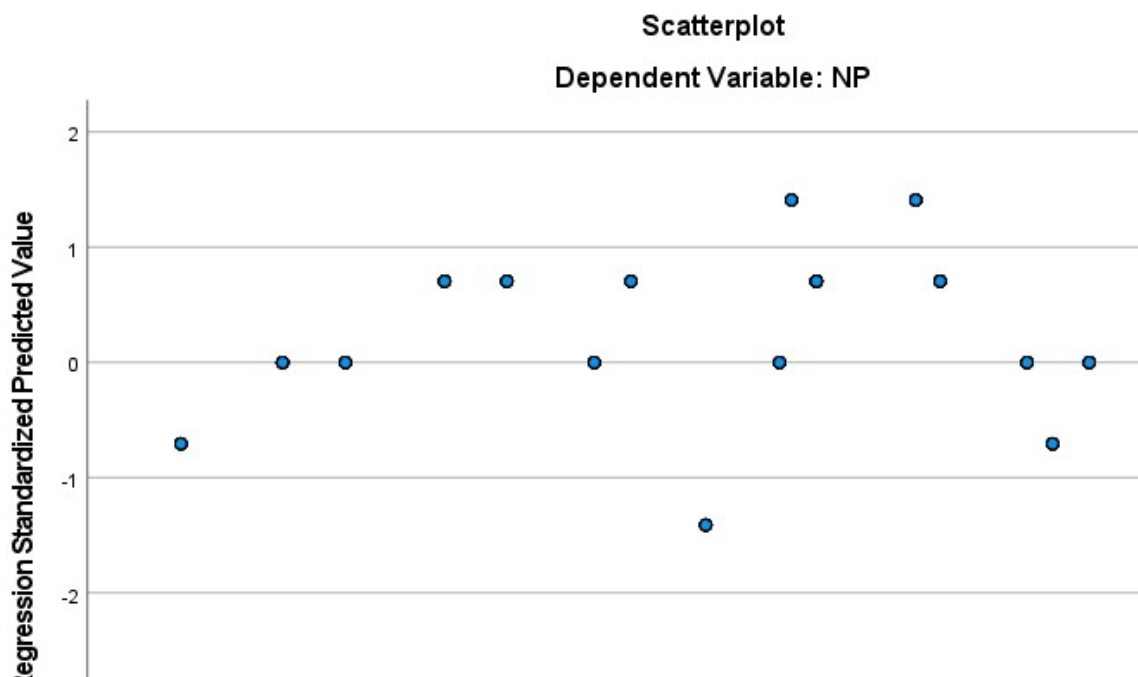

Histogram

Dependent Variable: NP
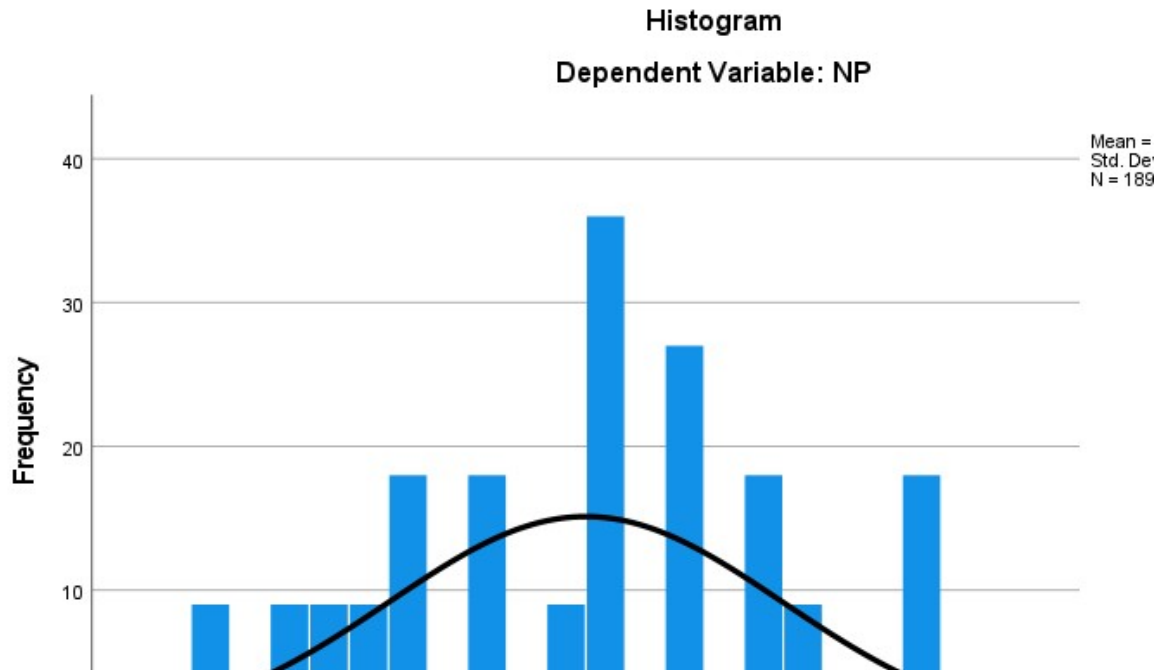
Figure 1 Homoscedasticity Results

From the graphical results above, the histogram shows that data is normally distributed and the normal P-P plot shows that there was normal distribution as most of the plots lies on the straight line. The scatter plot indicates that the predictor values increase as the residual values also increases meaning there was heteroscedasticity in the data, hence the absence of homoscedasticity in the data set

3.2 Skewness and Kurtosis

The research data were subjected to tests for kurtosis (pointiness) and skewness (lack of symmetry). Investigations were conducted to ascertain the positive (frequent scores are grouped at the lower end, with the tail pointing towards the higher or more positive scores) and negative (frequent scores are grouped at the higher end, with the tail pointing towards the lower more negative scores) skewness. To find out how much the scores concentrated in the tail of the distribution (kurtosis), additional testing was done. By executing the statistics as shown in the table below, the features of leptokurtic distributions (thin-tailed and highly pointed) and platykurtic distributions (heavy-tailed and relatively flat) were examined.

Table1: Skewness and Kurtosis Results

	N	Minimum	Maximum	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
FD	189	4.00	4.75	-1.018	.177	.986	.352
NP	189	2.90	4.70	-.597	.177	-.858	.352
Valid N (listwise)	189						

The skewness and kurtosis values in the given table were nearly zero, according to the results (Demir, 2022). This demonstrated that the normality test assumption that is, that the skewness and kurtosis values be zero or close to zero in a normal distribution was satisfied. This suggested that since the premise of normalcy utilizing skewness and kurtosis was met and tenable, the study's data were suitable for additional statistical testing.

Kolmogorov-Smirnov and Shapiro-Wilk Tests

Kolmogorov-Smirnov and Shapiro-Wilk tests were used to determine whether the distribution as a whole deviated from a comparable normal distribution in our data. The results were presented in the table below;

Table *2* Kolmogorov-Smirnov and Shapiro-Wilk Tests

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Non-performing Loans	.197	188	.000	.901	188	.000
Financial Disclosure	.213	188	.000	.879	188	.000

a. Lilliefors Significance Correction

As seen in the preceding table above, the results derived from our data showed that all items had values that were non-significant at P>.05. Given that the premise of normalcy utilizing the Kolmogorov and Shapiro tests was met and reachable, this suggested that our data was normally distributed and appropriate for additional statistical testing.

4.   Results

4.1 Descriptive results

Descriptive statistics were used to measure the level of responses from the respondents by using means and standard deviations as below

Table 3 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 3 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

4.2 Correlation Results

Pearson linear correlation coefficient was used to establish the relationship between financial disclosure and non-performing loans of commercial banks and the results were presented in the table 4 below;

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 4 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   Regression results
Linear regression was used to determine the effect and contribution of financial disclosure on non-performing loans of commercial banks.

Table 5: Model Summry[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.378[a]	.143	.138	.48947

a. Predictors: (Constant), FD

b. Dependent Variable: NP

From table 5 above, the results show a s positive overall relationship between financial disclosure and non-performing loans of commercial banks as indicated by R= 0.378, and financial disclosure contributes 14.3% to non-performing loans of commercial banks as indicated by R^2= 0. .143, meaning that when board members perform their role of financial disclosure, non-performing loans reduce by 14.3% and vice versa. The adjusted R square shows that a unit change in financial disclosure, causes 13.8% change in non-performing loans of commercial banks.

Table 6: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.459	1	7.459	31.135	.000[b]
	Residual	44.801	187	.240		
	Total	52.260	188			

a. Dependent Variable: NP

b. Predictors: (Constant), FD

From table 6 above, degrees of Freedom (df) indicate how many separate pieces of information are used to compute the sum of squares. In the case of the Regression, the df is 1, which is equal to the number of independent variables (predictors). The entire number of observations less the total number of predictors is the residual's df, which is 187. Calculated by dividing the total of squares by the number of degrees of freedom, or mean square (MS). The residual MS is .240 and the regression MS is 7.459, F-value = 31.135 is the ratio of the Regression MS to the Residual MS. A greater F-value suggests that the model explains a considerable percentage of the variation. Sig.: This stands for the p-value, which is used to determine the statistical significance of the F-statistic. A score of.000 indicates that the predictors significantly explain the variation in the result, suggesting that the model is highly significant (p < 0.000). The dependent variable may be well explained by the independent variables (predictors) taken together, since the model has statistical significance (p-value =.000). With an F-value of 31.135, the model is able to explain a significant portion of the variation in comparison to the residual, or unexplained variance. Out of the total variation of 52.260, the model explains 7.459 of it, leaving residual variance of 44.801 unexplained.

Table 7: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1.090	.907		-1.202	.231
	FD	1.124	.201	.378	5.580	.000

Without normalizing the units, they show the true effects of each independent variable (predictor) on the dependent variable. -The value of the dependent variable when all predictors are zero is called the intercept, and it is -1.090. Keeping all other factors equal, non-performing loans rise by .378 units for every unit increase in financial disclosure. The variable representing non-performing loans rises by .378 units for every unit increase in financial disclosure. These coefficients are obtained by standardizing the variables by placing them on a same scale, so that comparing the relative importance of each predictor is made simpler. Financial disclosure appears to have a moderately beneficial impact on non-performing loans (standardized beta = 0.378, t = 5.580, p = .000<0.05), this implies that null hypothesis (H0$_1$) which stated that there was no statistically significant relationship between financial disclosure and non-performing loans of commercial banks was rejected.

4.4 Unmediated Model for Financial Disclosure and Non-performing loans of commercial Banks
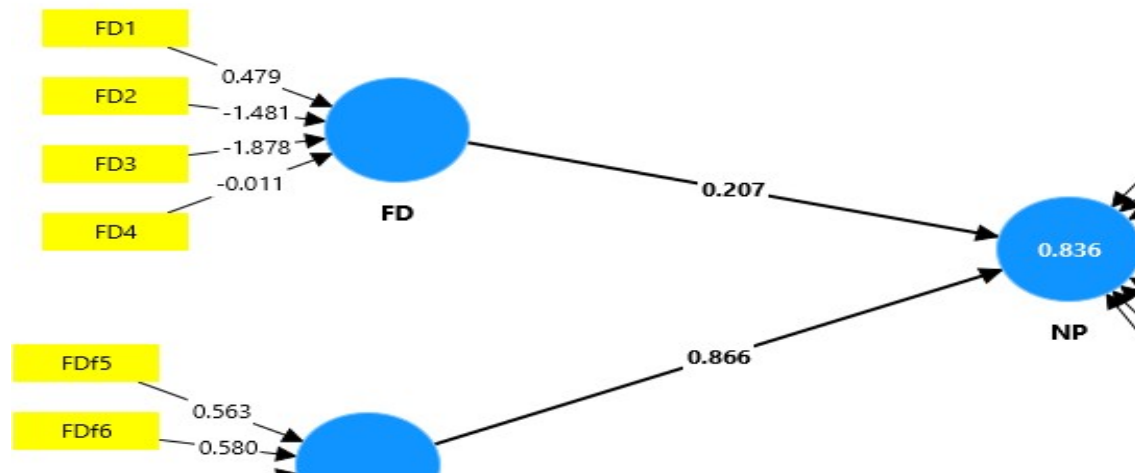
CMIN= 146.326
NFI= 0.95>0.90
MRSR= 0.05<0.08,
FD=0.207, P=.587,
FDf=.866,P=.046

Figure 2 Unmediated model for Financial Disclosure and Non-performing Loans

As depicted in the directed figure above, there are three primary nodes that correspond to each other: the first two for financial disclosure and the third node for non-performing loans (NP). Four sub-nodes (FD1 to FD4) are connected through transparent reporting of NPL (PD) node, resulting in a mixed bag of influences. The positive weight of FD1 is 0.479, indicating an optimistic outcome, while FF2 (-1.481) and FED3 (0.788) exhibit significant negative effects that may impact performance. At 0.207, the connection between transparent reporting of NPL (FD) and non-performance (NP) is weak enough to suggest that these two factors have a minimal impact on net performance. Unlike others, the precision of NPL valuation (FDf) node presents a more favorable picture, related to four sub-nodes (5FD5–FD8) where positive weights are predominantly observed. FD5 (0.563) and FF6 (0.780) are noteworthy factors that suggest improved performance, although CF8 does have a negative weight of -0.259. Non-performing loans (NP) are positively impacted by the Accuracy of NPL valuation (FDf), as 0.866 has a strong correlation with it.

The non-performing loans (NP) node is linked to ten indicators (P1–P10) that are used to assess the impact of different factors on performance. The positive weight of NP7 is 1.203, which indicates its significant contribution to net performance. However, many of these weights (NP3 (-0.825) and NP8 (-1.255) have negative values which suggest performance problems. This study emphasizes the importance of distinguishing between the effects of transparency in reporting NPL (FD) and association from the accuracy of NP; while transparency with respect to FD encompasses factors that may affect performance, the impact of NP seems to be greater. It would be more advantageous to enhance net performance by strengthening the beneficial effects of NPL valuation (FDf) accuracy while minimizing the detrimental effects from transparent reporting of this value to N level node.

To assess the model in SmartPLS, started with configuring latent variables and their corresponding markers, then routed paths based on the network's configuration. The PLS Algorithm's execution resulted in path coefficients, R2 values, and model fit indices such as SRMR and NFI. A good model fit was typically indicated by SRMR values of 0.08 and NFI values exceeding 0.90. However, the latter value was generally considered to be below this standard deviation. By bootstrapping (using 5000 samples that were assumed) the path coefficients' significance was assessed, and the chi-square values were approximated to 146.326. This proved that the model accurately accounted for the data and latent variables contributed to the explanatory power of the model.

Latent correlation between Financial Disclosure and Non-performing loans

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

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
FD -> NP	0.207	0.465	0.381	0.543	0.587
FDf -> NP	0.866	0.513	0.434	1.997	0.046

The directional relationships between FD, FDf, and NP are discussed in this table. It provides valuable information on the potential effects of these factors on NP by highlighting their influence. The relationship between FD and NP is weak due to the small sample effect size of 0.207, which indicates a weak correlation. The sample mean rises to 0.465, indicating some degree of variation among samples. However, a standard deviation of only 0.3881 is very large and this relationship is quite inconsistent. Given that the p-value of the data is lower than the typical threshold of 0.05, and the effect's t-statistic was set at 0.543, it seems unlikely that this result is statistically significant. It is likely that FD's effect on NP is not significant, and the association may be due to random variation rather than a consistent trend.

Conversely, the effect on the path from FDf to NP is much more pronounced. The initial sample effect size is exceptionally large, at 0.866, but it decreases to 0.513 in the sample mean. Variability could also be reflected in this decrease, with standard deviation of 0.434 being indicative. The drop is not significant, but the correlation is statistically significant with a t-statistic of 1.997 and p-value of 0.046, which falls just below the 0.05 level. Proper valuation (FDf) has a significant and positive impact on NP, as accurate valuations are likely to have broader implications for the level of non-performing loans. Essentially, transparent reporting (FD) has no statistically significant impact on NP, but the findings suggest that accurate valuation (FDf) is more crucial and important. The conclusion is drawn that precise appraisals are crucial in managing non-performing loans, with implications for financial management and risk assessment.

4.5 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
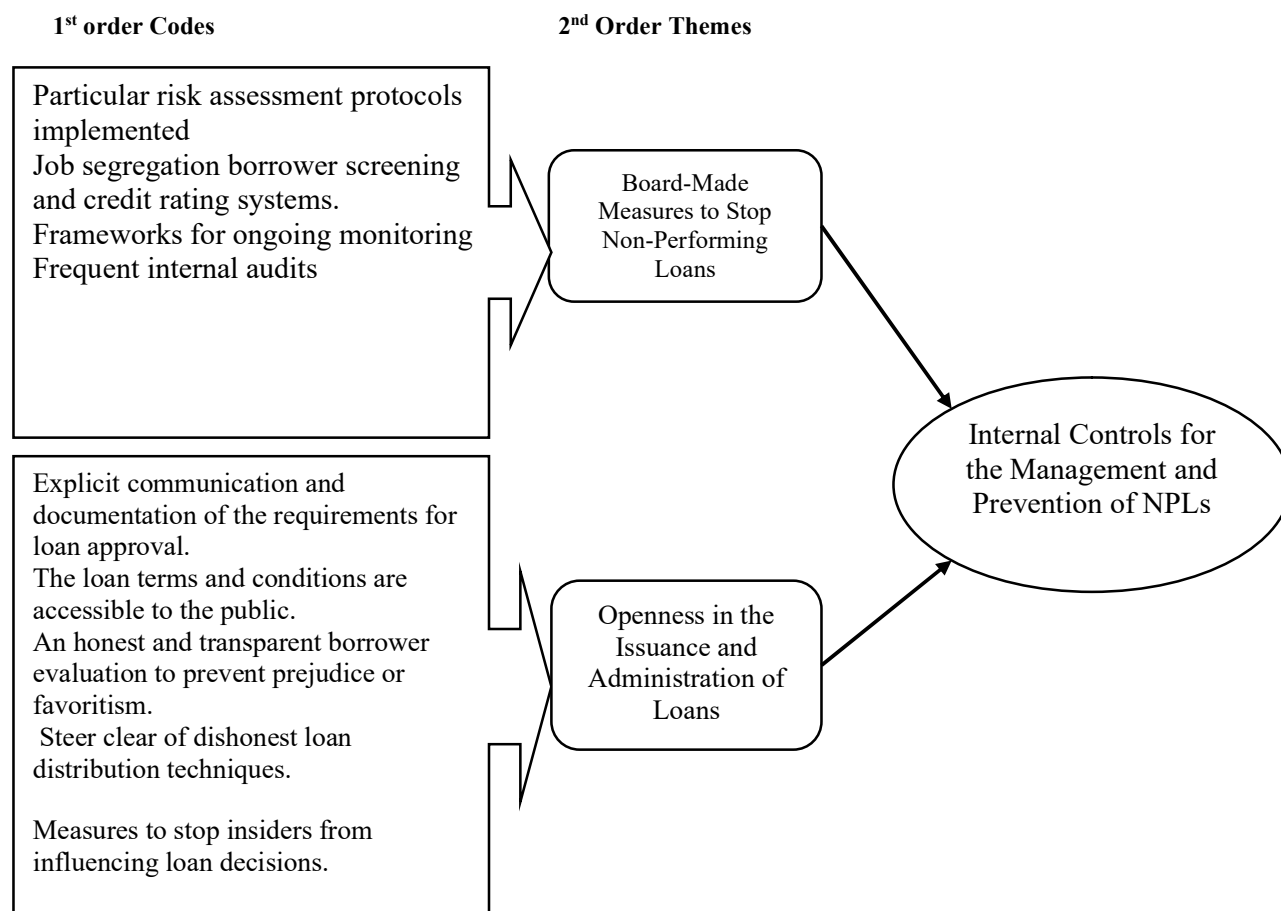
1ˢᵗ order Codes

2ⁿᵈ Order Themes

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

Internal Controls for the Management and Prevention of NPLs

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

Board-Made Measures to Stop Non-Performing

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.

Openness in the Issuance and Administration of Loans

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. Discussion

The empirical findings also revealed that financial disclosure has a significant influence with non-performing loans and there the null hypothesis which stated that there is no statistically significant relationship between financial disclosure and non-performing loans of commercial banks was rejected meaning that when the board of directors of commercial banks put in place mechanisms to ensure financial disclosure like bank preparing clear, concise financial statements in accordance with relevant accounting standards, disclosing their financial policies for evaluating assets and liabilities, banks providing comprehensive and meaningful notes to explain the numbers presented in financial statements. It was also discovered the commercial banks are not currently under investigation for accounting irregularities, they were also practicing segment reporting to show the performance of different segments, there was also transparency in disclosing transactions in banks and there was also timely reporting and finally management discussion and analysis section were catered for in the preparation of financial reports. All these had a positive impact on reducing non-performing loans of commercial banks.

The findings were in agreement with Akter and Hossain (2021) who investigated whether certain characteristics of the audit committees of Bangladesh's publicly traded banks might be used to explain the amount of non-performing loans (NPLs) and discovered that frequent audit committee meetings and a larger proportion of independent members in the audit committee help to minimize NPLs. Their findings, however, provide no conclusive proof that the other audit committee characteristics evaluated (audit committee size, financial experience and financial literacy of the audit committee members, and professional credentials of the audit committee Chairman) had an impact on the reduction of NPLs and the findings were also consistent with Khan and Ahmad (2020) who emphasized that an independent audit committee keeps an eye on a bank's financial reporting, internal controls, and risks to lessen agency issues with dishonestly issuing credit and anticipating a negative association between an independent audit committee and NPLs.

Similarly, the findings were consistent with Sigh, Basuki, and Setjawan (2021) conducted a study is to find out the impact of non-performing loans (NPLs) of conventional banks in Nepal and results of this study shows that ROA, bank size, GDP and inflation have a significant impact on bad debt, but RCA does not have a significant impact on countries' bad debt. Banks and policymakers should carefully consider GDP growth rates when making decisions related to bad debt. In the same regard, the findings were in agreement with Naji and Syed Shabib – Ul - Hassan (2023) carried out study aimed at collecting empirical data on GCG characteristics, as well as other regulatory-driven factors such bank size, capital adequacy ratios, and non-performing loans (NPLs) and findings indicated that the Capital Adequacy Ratio, Managerial Ownership, and Bank Size then influence positively and significantly on financial performance while other variables NPL have a negligible impact and Committee Audit have a positive but negligible impact on banking financial performance.

6. Conclusion and Recommendation

Based on the study findings and discussions, the concludes that financial disclosures affect non-performing loans of commercial banks. Banks were having Internal Controls for the Management and Prevention of NPLs and board members put in place mechanisms and controls to manage and prevent non-performing loans and although some of the internal controls instituted were adhered to by management and this has impacted commercial banks to remain with non-performing loans. The study also concludes that 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 were internal controls instituted by commercial banks to fight non-performing loans. However, lowering non-performing loans requires having rules and processes in place to guarantee that loans are granted in accordance with them which management was disregarding and as a result, non-performing loans occur. Based on the study findings and conclusions, the study recommends that commercial banks should ensure that they have in place strong internal control systems to enable them do a ware with loopholes that creates non-performing loans since it was discovered that having in place good financial disclosures in place like internal controls reduces loan performing loans and the reverse in true

7 Conflicts of Interest Declaration

We declare that we have no financial or personal relationships that could influence, or be perceived to influence, my research, academic work, or professional activities. All authors have no conflicts of interest related to the subject matter of my current research or in my role as an assistant lecturer in Business and Management. we commit to transparency and will promptly disclose any potential conflicts of interest that may arise in the future in accordance with institutional and ethical guidelines.

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