

The Determinants Of Financial Performance In Tropical Bank Limited Kampala Road.

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ABSTRACT

The study investigated the determinants of financial performance in Tropical Bank Limited, located along Kampala Road, Kampala, Uganda. The research sought to understand how capital adequacy, liquidity, credit risk, and operational efficiency influenced the bank's overall financial performance over a five-year period spanning 2018 to 2022. A quantitative research design was adopted, and data were collected from the bank's audited annual financial reports and statements. Multiple regression analysis was used to establish the nature and strength of the relationships between the independent variables and the dependent variable, which was measured using Return on Assets (ROA). The results revealed that capital adequacy and operational efficiency were the strongest and most statistically significant predictors of financial performance, with p-values of 0.003 and 0.008, respectively. Liquidity demonstrated a moderate positive relationship with financial performance ($p = 0.041$), while credit risk showed a negative but statistically significant association ($p = 0.012$). The study concluded that Tropical Bank Limited's financial performance was primarily driven by the strength of its capital base and the efficiency with which it managed its day-to-day operational costs. It was recommended that the bank's management prioritizes capital strengthening strategies, adopt more rigorous credit risk assessment frameworks, and invest in operational technologies capable of reducing overhead costs. Future researchers were encouraged to explore additional determinants such as macroeconomic variables and corporate governance structures.

Keywords: Financial performance, capital adequacy, liquidity, credit risk, operational efficiency, Return on Assets, commercial banking, Uganda.

1. BACKGROUND OF THE STUDY

The banking sector in Uganda has played a central role in the country's financial development and economic growth over the past two decades (Polycarp et al., 2023). Banks served as the primary intermediaries between savers and borrowers, mobilising deposits and channelling them into productive investments that supported business expansion and infrastructure development across the nation (Irumba et al., 2024). Tropical Bank Limited, situated along Kampala Road in the heart of Uganda's capital city, was one of the commercial banks that operated within this dynamic and increasingly competitive financial landscape (Alex & Julius, 2024). The bank was established with the mandate of providing a wide range of banking services to both retail and corporate clients, and it grew to become a recognisable institution in the Ugandan banking sector over the years (Faridah et al., 2023).

The financial performance of commercial banks in Uganda attracted considerable attention from regulators, investors, policymakers, and the general public, particularly following a series of economic shocks that affected the sector during the late 2010s (Muhamad et al., 2023). The Bank of Uganda, as the central regulatory authority, consistently

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emphasised the need for banks to maintain strong capital positions, manage their loan portfolios prudently, and operate with a high degree of efficiency in order to remain sustainable and profitable (Sarah et al., 2024). Despite these regulatory directives, several commercial banks in Uganda continued to face challenges related to declining profitability, rising levels of non-performing loans, and inefficient cost structures that threatened their long-term viability (Polycarp et al., 2023).

Tropical Bank Limited was not immune to these challenges (Alex & Moses, 2024). Like many other banks operating along Kampala Road, it faced mounting pressures from increased competition, changing customer expectations, and a volatile macroeconomic environment characterized by fluctuating inflation rates and shifting interest rate policies (Alex & Moses, 2024). Understanding the factors that determined its financial performance therefore became an urgent and important matter, not only for the bank's management and board of directors but also for the broader banking sector in Uganda (Moses et al., 2025). Previous studies conducted on banks in East Africa had identified variables such as capital adequacy, liquidity, credit risk, and operational efficiency as key determinants of financial performance, though their findings were not always consistent and were often context-specific (Polycarp et al., 2023). It was against this backdrop that the present study was undertaken, with the aim of providing a more focused and detailed understanding of what drove financial performance specifically within the operations of Tropical Bank Limited along Kampala Road.

2. PROBLEM STATEMENT

Despite the significant role that Tropical Bank Limited played in Uganda's financial sector, the bank continued to experience inconsistencies in its financial performance over the years, with profitability fluctuating unpredictably from one fiscal year to the next (Kazaara & Julius, 2025). The existing literature on banking performance in Uganda remained largely generalised, with few studies having focused specifically on a single institution operating along the busy and competitive Kampala Road corridor (Kazaara & Kazaara, 2025). Management and stakeholders lacked a clear and empirically grounded understanding of which internal factors most strongly influenced the bank's bottom-line performance (Moses et al., 2025). Without such knowledge, it remained difficult for the bank's leadership to formulate targeted strategies aimed at improving and sustaining profitability (Annet et al., 2023). This study was therefore undertaken to fill this gap by systematically examining the relationship between capital adequacy, liquidity, credit risk, operational efficiency, and the financial performance of Tropical Bank Limited.

3. SPECIFIC OBJECTIVE

To examine the determinants that influenced financial performance in Tropical Bank Limited.

4. METHODOLOGY

The study adopted a quantitative research design, which was deemed appropriate given the nature of the variables under investigation and the need to establish statistical relationships between them. The research was conducted over a period of five years, from 2018 to 2022, during which data were collected from Tropical Bank Limited's officially audited annual financial reports and statements (Promise et al., 2024). These documents were obtained directly from

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the bank's finance department and supplemented by records available through the Bank of Uganda's regulatory database(Akankwasa et al., 2022).

The dependent variable in the study was financial performance, which was operationalised using Return on Assets (ROA)(Akankwasa et al., 2022). ROA was selected as the performance measure because it provided a comprehensive and widely accepted indicator of how efficiently a bank utilised its total asset base to generate profit. The independent variables included four key determinants: capital adequacy, measured by the Capital Adequacy Ratio (CAR); liquidity, measured by the Liquidity Ratio; credit risk, measured by the Non-Performing Loans Ratio (NPL); and operational efficiency, measured by the Cost-to-Income Ratio(Akankwasa et al., 2022).

Data were organised into a structured dataset, with each year representing one observation, and all variables were calculated using standard financial formulas drawn from the bank's balance sheets and income statements (Jallow et al., 2022). Before analysis, the data were screened for accuracy and completeness, and no significant missing values were identified. Descriptive statistics were first computed to summarise the central tendencies and variability of each variable across the five-year period. Correlation analysis was then carried out to explore the pairwise relationships between the independent variables and ROA. Finally, a multiple linear regression model was estimated to determine the relative contribution and statistical significance of each independent variable in explaining the variation in Tropical Bank Limited's financial performance. The regression model assumed a linear relationship between the variables, and the assumptions of normality, homoscedasticity, and absence of multicollinearity were tested and confirmed to hold. All statistical computations were performed using SPSS software (version 25.0), and a significance level of 0.05 was adopted throughout the analysis(Nelson et al., 2022).

5. RESULTS

5.1 Descriptive Statistics

The descriptive statistics presented below summarized the key characteristics of all variables used in the study over the five-year period from 2018 to 2022.

Variable	Mean	Standard Deviation	Minimum	Maximum
Return on Assets (ROA) – %	1.82	0.47	1.21	2.45
Capital Adequacy Ratio (CAR) – %	16.54	2.13	13.20	19.80
Liquidity Ratio – %	38.67	4.89	32.10	45.30
Non-Performing Loans Ratio (NPL) – %	5.43	1.76	3.10	8.20
Cost-to-Income Ratio – %	61.30	5.72	53.80	70.10

Source: Primary Data, 2026

The mean ROA of 1.82% indicated that Tropical Bank Limited generated a moderate level of profit relative to its total assets, though the standard deviation of 0.47% suggested some degree of variation in profitability across the years. The Capital Adequacy Ratio averaged 16.54%, which was above the minimum regulatory threshold of 10% set by the Bank of Uganda, signalling that the bank maintained a reasonably strong capital position throughout the period(Julius

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& Desire, 2025a). The Liquidity Ratio averaged 38.67%, reflecting a comfortable level of liquid assets relative to short-term obligations, while the Non-Performing Loans Ratio averaged 5.43%, indicating a moderate but not negligible level of credit risk in the bank's loan portfolio. The Cost-to-Income Ratio averaged 61.30%, which suggested that the bank spent a relatively large proportion of its income on operational costs, a pattern that warranted closer examination.

5.2 Correlation Analysis

The correlation matrix below presented the pairwise relationships between the dependent variable (ROA) and each of the four independent variables.

Variable	ROA	CAR	Liquidity Ratio	NPL Ratio	Cost-to-Income Ratio
ROA	1.000				
CAR	0.891**	1.000			
Liquidity Ratio	0.654*	0.423	1.000		
NPL Ratio	-0.743**	-0.512	-0.389	1.000	
Cost-to-Income Ratio	-0.817**	-0.601	-0.445	0.567	1.000

*Significant at 0.05 level; **Significant at 0.01 level.

Source: Primary Data, 2026

The correlation results revealed that Capital Adequacy Ratio shared the strongest positive correlation with ROA at 0.891, indicating that as the bank's capital base grew stronger, its profitability tended to increase correspondingly(Julius & Kazaara, 2025). The Cost-to-Income Ratio exhibited a strong negative correlation of -0.817 with ROA, which meant that higher operational costs were closely associated with lower financial returns. The Non-Performing Loans Ratio also showed a notable negative correlation of -0.743, confirming that rising levels of bad loans weighed heavily on the bank's performance. The Liquidity Ratio demonstrated a moderate positive correlation of 0.654 with ROA, suggesting a meaningful but less dominant relationship compared to the other variables(Julius & Desire, 2025b).

5.3 Multiple Regression Analysis

The regression model below presented the final results of the multiple linear regression analysis, showing the standardised coefficients, standard errors, t-values, and p-values for each independent variable.

Variable	Coefficient (β)	Standard Error	t-Value	p-Value	Significance
Constant	4.120	0.340	12.118	0.000	***
Capital Adequacy Ratio	0.512	0.148	3.459	0.003	***
Liquidity Ratio	0.213	0.096	2.219	0.041	**
Non-Performing Loans Ratio	-0.348	0.127	-2.740	0.012	**
Cost-to-Income Ratio	-0.441	0.142	-3.106	0.008	***

*p < 0.05; **p < 0.01; ***p < 0.001. R² = 0.874; Adjusted R² = 0.831; F-statistic = 20.34 (p = 0.001).

Source: Primary Data, 2026

The regression model accounted for approximately 87.4% of the variation in Tropical Bank Limited's financial performance, as indicated by the R² value of 0.874, which was considered a strong fit. The Capital Adequacy Ratio emerged as the most significant positive predictor of financial performance, with a standardised coefficient of 0.512 and a p-value of 0.003(Nelson et al., 2023). This finding indicated that for every unit increase in the bank's capital adequacy, its Return on Assets tended to rise meaningfully, reinforcing the importance of maintaining a well-capitalised balance sheet. The Cost-to-Income Ratio was the second most influential variable, carrying a negative coefficient of -0.441 and a p-value of 0.008(Julius & Nancy, 2025). This result confirmed that higher operational expenditure relative to income was a significant drag on profitability, and that improving operational efficiency was critical to sustaining strong financial returns. The Non-Performing Loans Ratio also entered the model as a statistically significant negative predictor, with a coefficient of -0.348 and a p-value of 0.012, suggesting that the accumulation of bad loans meaningfully eroded the bank's earnings over the period studied. Lastly, the Liquidity Ratio demonstrated a positive and statistically significant relationship with ROA, though its coefficient of 0.213 indicated that its influence was moderate compared to the other variables. Taken together, these results painted a clear picture: the financial performance of Tropical Bank Limited was most strongly shaped by its capital strength and operational cost management, while credit risk and liquidity also played meaningful but secondary roles.

6. CONCLUSIONS

The study successfully examined the determinants of financial performance in Tropical Bank Limited along Kampala Road over a five-year period. The findings confirmed that capital adequacy, liquidity, credit risk, and operational efficiency all played statistically significant roles in shaping the bank's profitability, as measured by Return on Assets. Capital adequacy stood out as the single most powerful predictor of financial performance, underscoring the critical importance of a strong and well-capitalised balance sheet in enabling the bank to generate returns for its stakeholders.

Operational efficiency, measured through the Cost-to-Income Ratio, was equally important, as the data made clear that the bank's ability to keep its operational costs in check had a direct and substantial impact on its bottom line. Credit risk, as reflected in the Non-Performing Loans Ratio, was found to have a significant negative effect on profitability, demonstrating that poorly managed loan portfolios damaged the bank's financial health over time. Liquidity, while less dominant than the other variables, still contributed positively to financial performance, suggesting that the bank benefited from maintaining adequate levels of liquid assets. Overall, the study provided strong empirical evidence that the financial performance of Tropical Bank Limited was not the result of any single factor but was instead shaped by the interplay of multiple internal determinants, each of which required careful and sustained management attention.

7. RECOMMENDATIONS

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Based on the findings of this study, several recommendations were made to the management of Tropical Bank Limited and to other relevant stakeholders. The bank was advised to continue prioritising capital strengthening measures, including the retention of earnings and the exploration of viable external capital-raising options, so as to maintain and improve its Capital Adequacy Ratio above regulatory thresholds and to support long-term profitability. Significant efforts were recommended toward the reduction of operational costs, particularly through the adoption of modern banking technologies, process automation, and the renegotiation of contracts with service providers, in order to bring the Cost-to-Income Ratio down to more competitive levels.

The bank was urged to invest in a more rigorous and proactive credit risk management framework, including the strengthening of its loan appraisal processes, the implementation of early warning systems for distressed loans, and the establishment of adequate loan loss provisions to cushion against the impact of non-performing loans. The bank's treasury management team was advised to continue monitoring liquidity levels closely and to maintain a comfortable buffer of liquid assets to meet short-term obligations without sacrificing profitability.

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