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Assessing The Effectiveness of Portfolio Management on the Performance of Commercial Banks in Zambia: Evidence from Absa Bank in Lusaka

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Abstract

The efficacy of portfolio management techniques in the banking industry is called into question by these tendencies. Even if banks like ABSA have implemented risk-based frameworks and diversified asset strategies, market volatility, regulatory requirements, and shifts in consumer borrowing patterns nevertheless have an impact on their financial performance. The degree to which portfolio management techniques have a direct impact on Zambia's commercial banks' financial performance is yet unknown, particularly in the case of major establishments like ABSA Bank. Existing studies in the Zambian context have focused mainly on credit risk, capital adequacy, or general financial performance, with limited attention to the combined role to examine in what way portfolio management practices influence the financial performance of commercial banks in Zambia, with specific evidence drawn from ABSA Bank in Lusaka. The specific objectives of the study were to assess the effectiveness of asset allocation practices on the financial performance of ABSA Bank in Lusaka to evaluate how the quality of the credit portfolio influences the financial performance of ABSA Bank in Lusaka, and to determine the impact of investment portfolio decisions on the financial performance of ABSA Bank in Lusaka. The researcher adopted a quantitative research design. The study employed random sampling techniques to mobilise the quantitative data. The study used a Convergent Parallel Design, which involves simultaneously collecting and analyzing quantitative and qualitative data before combining them for interpretation. The researcher compared quantitative financial performance data with qualitative portfolio management staff perspectives thanks to this design. The convergent design is suitable when the researcher wants to collect various but complementary types of data on the same phenomenon, according to Creswell and Plano Clark (2018). The research comprised of questionnaires. The questionnaires were used because they are the main means of collecting quantitative primary data. The questionnaires enabled quantitative data collected in a standardized manner, to ensure the data is consistency and coherent for the analysis. From the findings, hypothesis tests if asset allocation practices have a significant effect on the financial performance of ABSA Bank in Lusaka was analyzed using regression analysis. The dependent variable financial performance was regressed on predicting variables of effects of asset allocation practices at ABSA bank in Lusaka to test the hypothesis H1. The analysis from the model summary and the ANOVA table predicted that financial performance, $F(6,191) = 56.35$, $p<0.05$) has a significant effect on asset allocation practices at ABSA Bank in Lusaka. These results clearly direct the positive effect of financial performance, $R2=0.648$ depicts that the model explains 64.8 % of the variance in the effects of asset allocation practices at ABSA Bank in Lusaka. The dependent variable financial performance was regressed on predicting variables of credit portfolio quality at ABSA bank in Lusaka to test the hypothesis H2. The analysis from the model summary and the ANOVA table predicted that financial performance, $F(6,191) = 30.801$, $p<0.05$) has a significant effect on credit portfolio quality at ABSA Bank in Lusaka. These results clearly direct the positive effect of financial performance, $R2=0.501$depicts that the model explains 50.1 % of the variance in the effects of asset allocation practices at ABSA Bank in Lusaka. The analysis from the model summary and the ANOVA table predicted that financial performance, $F(6,191) = 10.058$, $p<0.05$) has a significant effect on investment portfolio decisions at ABSA Bank in Lusaka. These results clearly direct the positive effect of financial performance, $R2=0.2471$depicts that the model explains 24.7 % of the variance in the effects of investment portfolio decisions at ABSA Bank in Lusaka.

Keywords: Portfolio Management, Financial Performance, consumer borrowing, investment

1. Introduction and Background

Commercial banks operate in an environment that is marked by increased financial risks, tightened regulations, and fast technological change on a global scale. In order to navigate these complexities and maximise returns while maintaining acceptable risk levels, effective portfolio management has emerged as a crucial instrument (Simpasa & Pla, 2017). International regulatory agencies reinforced risk-based frameworks in the wake of the 2008 global financial crisis, forcing banks to implement stronger portfolio management procedures to improve performance and resilience (Mwanza & Haabazoka, 2025).

However, issues including high credit risk, few chances for diversification, and uncertain macroeconomic conditions beset commercial banks in Sub-Saharan Africa. Because of these circumstances, portfolio management is essential to financial performance (Akinboade & Kinfack, 2016). According to regional studies, banks with robust risk management systems and well-diversified portfolios typically perform better than those with concentrated or badly managed asset structures (Markowitz, 2022). Portfolio optimisation has become more crucial for maintaining profitability and competitiveness as the financial markets in the area grow.

Through investment, financial intermediation, and credit provision, Zambia's banking industry is essential to promoting economic progress. However, there have been times when the industry has been unstable due to fiscal imbalances, inflationary pressures, and changes in exchange rates. The requirement for careful portfolio management to protect asset quality and sustain financial performance has increased due to these macroeconomic dynamics (Nasong'o, et al., 2025). The significance of efficient portfolio strategies for commercial banks is highlighted by recent Bank of Zambia reports that show rising non-performing loans (NPLs) and greater exposure to credit risk.

One of the biggest and most significant commercial banks in Zambia is ABSA Bank Zambia, formerly known as Barclays Bank Zambia. Corporate loans, retail banking, treasury investments, and SME financing make up its portfolio. The effectiveness of ABSA, a systemically significant organisation, is directly correlated with the calibre of its portfolio management procedures. To improve profitability, preserve liquidity, and adhere to legal obligations, the bank has put in place a number of risk management and asset allocation techniques (Kaluba, 2024). Nonetheless, Zambia's ever-changing economic landscape still presents difficulties that could have an impact on the bank's overall performance and portfolio quality.

1.2 Problem Statement

Effective portfolio management is crucial for preserving profitability, liquidity, and asset quality in the increasingly unstable financial climate in which commercial banks operate. Bank performance is known to be significantly impacted by good portfolio management techniques such diversification, credit risk assessment, and strategic asset allocation (Mwangi & Muturi, 2018). Strong portfolio strategies help banks achieve better financial results globally, such as lower non-performing loans and higher return on assets (IMF, 2020). According to studies, banks in Sub-Saharan Africa that have well-managed portfolios outperform those with concentrated or poorly structured asset bases (Sagoe et al. 2025).

Rising credit risk, erratic interest rates, and general macroeconomic pressures continue to impact Zambia's commercial banks' profitability. The sector's non-performing loan ratio climbed from 6.3 percent in 2021 to 8.7 percent in 2023, according to the Bank of Zambia. This suggests a drop in asset quality and a rise in portfolio risk (Mulwa & Kosgei, 2016). The efficacy of portfolio management techniques in the banking industry is called into question by these tendencies. Even if banks like ABSA have implemented risk-based frameworks and diversified asset strategies, market volatility, regulatory requirements, and shifts in consumer borrowing patterns nevertheless have an impact on their financial performance.

The degree to which portfolio management techniques have a direct impact on Zambia's commercial banks' financial performance is yet unknown, particularly in the case of major establishments like ABSA Bank. Existing studies in the Zambian context have focused mainly on credit risk, capital adequacy, or general financial performance, with limited attention to the combined role of portfolio management as a strategic driver of performance outcomes. Regulators, legislators, and bank managers are less able to make well-informed choices about asset allocation, risk management, and performance enhancement as a result of this gap.

Thus, an empirical study that uses ABSA Bank in Lusaka as a case study to investigate how portfolio management impacts the performance of commercial banks in Zambia is clearly needed. Such data is crucial for bolstering risk management procedures, raising asset quality, and boosting the stability and competitiveness of the banking industry.

2. Literature Review

2.1 Previous Studies

Empirical evidence from outside Africa demonstrates that sophisticated asset allocation strategies can significantly enhance bank financial performance. Coelho et al., (2024) conducted a groundbreaking study examining whether bank portfolio optimization models outperform heuristic allocation rules in maximizing profitability under Basel III constraints. Using an optimization model based on turnover constraints and comparing it against heuristic rules through out-of-sample testing on a dataset of bank portfolios, the researchers found that optimization strategies delivered 15.1 percent average annual out-performance in Return on Equity compared to heuristic allocation rules. This finding is particularly noteworthy because it contrasts with the typical underperformance of optimization methods in general investment management contexts, suggesting that formal optimization models significantly outperform simple diversification rules specifically within the banking sector. The study, however, was limited by its focus on European banking contexts and did not examine how these findings translate to emerging markets with different regulatory frameworks. Furthermore, the research did not address whether optimization gains persist during financial crises, leaving an important gap for future investigation into the stability of optimized allocation strategies under extreme market conditions.

Similarly, panel-based studies have reinforced the importance of asset allocation in improving financial outcomes. Muhia

et al., (2025), although focusing on investment firms rather than strictly commercial banks, provide relevant insights applicable to banking institutions. Their study, which employed panel regression techniques using data spanning several years, revealed that asset allocation had a positive and significant effect on profitability indicators such as return on assets and return on equity. These findings support the assumptions of Modern Portfolio Theory, which argues that diversification and optimal allocation of assets enhance returns for a given level of risk. From a banking perspective, this evidence suggests that prudent allocation between income-generating and liquid assets strengthens financial performance. Nevertheless, the exclusion of regulated commercial banks in the sample presents a research gap, as banks operate under stricter regulatory and liquidity constraints than investment firms.

Africa

Within the African context, several empirical studies have examined the relationship between asset allocation and bank performance across different countries. Solomon (2024) investigated the impact of asset diversification on the financial performance of Ethiopian commercial banks, measured by Return on Assets. Employing an explanatory research design with a quantitative approach, the study analyzed 80 observations from audited financial statements of eight commercial banks covering the period 2014 to 2023. Using multiple linear regression analysis with EViews, the findings revealed that loans and cash holdings had a positive and significant effect on financial performance, while fixed assets demonstrated a negative and significant relationship. Interestingly, financial assets and current assets showed an insignificant relationship with performance. Based on these findings, Solomon recommended that bank managers focus on loan portfolio expansion and optimize cash holdings through effective budgeting while simultaneously reducing investment in fixed assets. However, as a single-country study, the findings have limited generalizability to other African markets, and the research did not examine how inflation and currency volatility moderate the asset-performance relationship in Ethiopia's economic context.

In the Tanzanian context, Lameck & Mrindoko (2023) examined the impact of asset diversification on the profitability of large commercial banks, focusing specifically on customer loans, bank assurance, and government securities. Utilizing a descriptive research design with secondary data analysis through SPSS, the study examined annual reports and Bank of Tanzania publications from large commercial banks covering the period 2015 to 2020. The regression analysis revealed that all three asset categories had significant positive impacts on profitability, with customer loans ($p = 0.0418$), government securities ($p = 0.0399$), and bank assurance ($p = 0.0348$) all demonstrating statistical significance. Additionally, control variables including capital adequacy, asset size, liquidity, inflation, and gross domestic product all showed significant relationships with bank performance, confirming the applicability of portfolio diversification theory in the Tanzanian banking context. Nevertheless, the study's exclusive focus on large banks excluded medium and small banks that may face different asset allocation constraints, and the research did not examine optimal diversification thresholds or potential diminishing returns to diversification, representing important avenues for future research.

More recently, Chimombo & Magdaline (2025) investigated the impact of Strategic Asset and Liability Management on the financial growth and profitability of NBS Bank plc in Malawi. Employing a mixed-methods approach that combined quantitative financial ratio analysis with qualitative interviews, the study analyzed financial data from audited reports and Reserve Bank of Malawi disclosures covering the period 2020 to 2023. The findings revealed that Return on Assets and Return on Equity showed steady increases throughout the study period, reflecting enhanced asset utilization and improved profitability. The Net Interest Margin remained stable, confirming the importance of effective loan pricing and strategic asset deployment. Furthermore, the Loan-to-Deposit Ratio was maintained at approximately 74 percent, ensuring liquidity stability while optimizing lending activities. The study concluded that Strategic Asset and Liability Management practices were crucial for the bank's performance improvement. However, as a single case study, the findings have limited external validity, and the relatively short four-year time frame cannot capture long-term cyclical effects on bank performance. The researchers also identified rising operational costs and credit risk as concerns requiring further investigation across multiple Malawian banks.

Recent empirical studies provide strong evidence that asset allocation practices significantly influence the financial performance of banks, particularly in developing and emerging economies. Asset allocation, which involves distributing funds among loans, liquid assets, and investment securities, is widely recognised as a core determinant of profitability, liquidity, and risk exposure in banking institutions.

Empirical evidence from East Africa demonstrates a positive and statistically significant relationship between asset allocation practices and bank performance. For instance, Atuya et al., (2023), in a study of commercial banks in Kenya, found that effective asset allocation significantly improved financial performance as measured by return on assets and return on equity. Using a descriptive research design and regression analysis, the study established that banks that optimally balanced their assets across loans, treasury instruments, and investments recorded higher profitability and improved risk management outcomes. From this evidence, it is apparent that strategic asset allocation enhances income generation while limiting excessive exposure to risk. However, the study was limited to Nairobi County and relied heavily on cross-sectional data, leaving a gap regarding long-term effects of asset allocation decisions and their applicability to other banking environments such as Zambia.

Similarly, panel-based studies have reinforced the importance of asset allocation in improving financial outcomes. Muhia et al., (2025), although focusing on investment firms rather than strictly commercial banks, provide relevant insights applicable to banking institutions. Their study, which employed panel regression techniques using data spanning several

years, revealed that asset allocation had a positive and significant effect on profitability indicators such as return on assets and return on equity. These findings support the assumptions of Modern Portfolio Theory, which argues that diversification and optimal allocation of assets enhance returns for a given level of risk. From a banking perspective, this evidence suggests that prudent allocation between income-generating and liquid assets strengthens financial performance. Nevertheless, the exclusion of regulated commercial banks in the sample presents a research gap, as banks operate under stricter regulatory and liquidity constraints than investment firms.

Zambia

Empirical evidence from Zambia indicates that asset allocation practices significantly influence the financial performance of commercial banks. For instance, a study by Kayombo et al., (2023) examined credit management practices among Zambian banks and found that asset allocation indicators such as loan portfolio composition and asset quality significantly affect profitability. Using panel data from commercial banks, the study established that higher loan loss provisions, which reflect poor allocation toward risky assets, negatively impacted return on assets, while efficient asset deployment improved performance.

Similarly, Chisongo & Kayombo (2023) analysed the determinants of profitability in the Zambian banking sector and found that asset-related variables such as liquidity levels, asset size, and diversification into non-interest income significantly influenced bank profitability. The findings suggested that banks that strategically allocate assets toward high-quality loans and diversified income streams tend to achieve better financial outcomes. However, both studies primarily relied on secondary financial data and did not explicitly explore strategic asset allocation frameworks or managerial decision-making processes, thereby leaving a gap for studies that examine structured asset allocation practices and their direct influence on bank performance in Zambia.

The effect of quality of the credit portfolio on the financial performance of banks

Outside Africa

Empirical research from outside Africa provides robust evidence on the relationship between credit portfolio quality and bank financial performance, with particular emphasis on non-performing loans as a key indicator of portfolio quality. Karkowska et al., (2025) conducted a comprehensive study examining the determinants of loan portfolio quality in European banks and the extent to which provisions cover these portfolios. Their research was based on a sample of 197 banks from 31 European countries covering the period from 2011 to 2022, employing dynamic panel regression models with Generalised Method of Moments estimators. The study utilized a comprehensive framework for credit risk management incorporating three fundamental indicators: non-performing loans, provision coverage, and the cost of risk. The empirical findings suggested that diversifying income sources beyond traditional lending activities can improve the effectiveness of credit risk management. Furthermore, the study revealed that larger banks demonstrate superior capability in managing non-performing loans and mitigating risk-related costs, with this effect being particularly pronounced in institutions with strategic investors, suggesting a potential advantage in governance and risk oversight.

In the Indonesian context, Nugroho et al., (2025) investigated the correlation between Non-Performing Loans and bank profitability through a case study of PT Bank Rakyat Indonesia (Persero) Tbk covering the period 2020 to 2024. Employing a quantitative associative method with simple linear regression analysis, the study examined the relationship between NPL, NPL Ratio, Loans, and Credit on corporate profitability. The findings revealed that while NPL, NPL Ratio, Loans, and Credit demonstrated a positive linear relationship with profitability, the regression analysis indicated that the influence of Loans and NPL as dependent variables on profitability was not statistically significant. The researchers attributed this finding to Bank Rakyat Indonesia's substantial revenue streams and other contributing factors that enhance and optimize the bank's profitability, suggesting that well-diversified income sources can mitigate the impact of credit quality deterioration.

Gupta & Bansal (2024) examined the manifestations of loan growth on profitability and non-performing loans in the Indian banking sector, addressing a critical gap in understanding the simultaneous impact of loan growth on both NPLs and profitability. The study employed a sample of Indian private and public sector banks with financial data covering the period 2006 to 2021, utilizing two-step differenced generalized method of moments estimation and mediation analysis through structural equation modeling. The findings revealed that bank lending is a major contributor to bank earnings; however, loan growth beyond a certain point has a negative impact on profitability and simultaneously adds to NPLs. The study concluded that moderate loan growth is key to steady and stable growth in the Indian banking industry, and importantly, the mediation analysis demonstrated that NPLs play a significant mediating role in the relationship between loan growth and profitability. This nuanced finding suggests that credit portfolio quality serves as a transmission mechanism through which lending activities ultimately affect bank financial performance.

A systematic review by Shabani et al., (2024) analyzed 59 empirical studies published between 1979 and 2024 investigating factors affecting bank profitability. Using an innovative concept-oriented matrix analysis method, the study categorized factors into three general dimensions: cyclical, structural, and bank-specific factors. The results indicated that the interaction of cyclical, structural, and specific factors on bank profitability still lacks deep understanding and requires more empirical research. Importantly, the study highlighted that credit quality consistently emerges as a critical bank-specific factor influencing profitability, though the holistic approach revealed gaps between existing knowledge and what remains to be understood about these complex relationships.

Pathak (2025) conducted a bibliometric and thematic analysis of 1,917 Scopus-indexed papers on bank financial performance covering the period 2012 to 2021. The thematic analysis results depicted that profitability, credit risk, and commercial banks are important themes that have been niche-covered by researchers, indicating that these fields require much greater consideration for future research. The study identified that while extensive research exists on bank profitability, the specific mechanisms through which credit portfolio quality influences performance remain underexplored, particularly through alternative methodological approaches such as data envelopment analysis.

Africa

Within the African context, several empirical studies have examined the relationship between credit portfolio quality and bank financial performance across different countries. A seminal study conducted in Uganda by researchers at Busitema University (2025) sought to establish the influence of credit management practices and loan portfolio quality on the profitability of commercial banks in Uganda. Anchored on Modern Portfolio Theory, the study adopted a cross-sectional research design with a quantitative approach, collecting data from 133 respondents drawn from 21 commercial banks licensed by the Bank of Uganda through structured questionnaires. Statistical analysis conducted using SPSS Version 22 employed descriptive statistics, correlation, hierarchical regression, and multiple regression analyses. The findings revealed that credit management practices significantly enhanced profitability, while loan portfolio quality had a strong positive and significant effect on profitability. The combined effect of credit management practices and loan portfolio quality on profitability was also positive and statistically significant, implying that improvements in both areas jointly contribute to higher bank profitability. The study concluded that profitability in commercial banks largely depends on the strength of their credit management systems and the quality of their loan portfolios, recommending that banks strengthen their credit appraisal, documentation, and approval processes while improving monitoring mechanisms to sustain loan quality.

A study conducted at Post Bank Uganda's main branch in Kampala (2025) investigated the relationship between credit policy and performance of commercial banks, with a specific focus on how credit policy influences loan portfolio quality and ultimately financial performance. Adopting a case study design utilizing mixed methods, primary data was collected through questionnaires administered to staff and interviews with key management personnel. Financial performance was measured using key indicators including Return on Assets, Return on Equity, and the level of Non-Performing Loans. Data analysis using both descriptive and inferential statistics revealed that specific components of Post Bank Uganda's credit policy have a statistically significant and positive relationship with the bank's performance. A well-defined credit policy was shown to contribute to higher profitability as measured by ROA and ROE. The research also identified external economic factors and stringent loan appraisal processes as influential elements impacting the effectiveness of credit policy. The study concluded that a robust and effectively implemented credit policy is a fundamental driver of improved financial performance for commercial banks in Uganda, enhancing asset quality, maximizing returns, and minimizing credit losses.

In the Ethiopian context, Lulseged (2024) conducted a thesis research study examining the effect of credit risk management on the quality of loan portfolios, focusing on the Commercial Bank of Ethiopia Bole District. Drawing a sample of 82 respondents through purposive sampling technique and utilizing both primary and secondary data, the study employed multiple regression analysis using SPSS Version 21.0. The findings revealed that the Commercial Bank of Ethiopia Bole District has not satisfactory risk management practice, with all parameters of risk management practice assessment scoring below 3.40 on a 5-point scale. Specifically, Credit Risk Granting and Portfolio Quality Control scored 3.40, Credit Risk System and Standard scored 3.20, Credit Risk and Portfolio Quality Control scored 3.17, Risk Identification, Measurement and Control scored 3.03, and Risk Environment scored 2.98. The bank's loan portfolio was found to be vulnerable to various types of risks including unpredictable, predictable, and controllable risks, with the bank's NPL ratio exceeding 15 percent for the last five years. The regression results indicated that sound credit granting process and the existence of comprehensive risk management system and standards are the significant variables affecting loan portfolio quality. The study concluded that both in terms of non-performing loans and concentration, the bank has poor loan portfolio quality attributable to poor credit risk management practice, recommending improvement in credit granting processes and updating credit risk management systems and standards.

A comprehensive review of the African empirical literature reveals consistent findings across Uganda, Ethiopia, and other African jurisdictions: credit portfolio quality, typically measured through non-performing loan ratios and loan portfolio concentration, exerts a significant influence on bank financial performance. The Ugandan studies demonstrate that both credit management practices and loan portfolio quality independently and jointly contribute to bank profitability. The Ethiopian study provides important contextual evidence that weak credit risk management practices directly manifest in poor loan portfolio quality, with NPL ratios exceeding regulatory thresholds, ultimately undermining bank stability and performance. These findings collectively suggest that across diverse African banking markets, the quality of the credit portfolio serves as a fundamental determinant of bank financial performance, mediated by the effectiveness of credit risk management systems and the robustness of credit policies.

Zambia

Simpasa & Pla (2017) conducted a foundational study examining how banks' choices regarding credit portfolio composition affect risk and performance in Zambia. Using bank-level data, the study characterized the evolution of sectoral credit concentration and risk conditioned on bank size clusters. The analysis revealed that small banks maintain less diversified credit portfolios compared to medium and large-sized counterparts. Importantly, the study found that banks'

credit concentration is inversely related to risk, a result that appears at variance with theoretical expectations. The authors argue that by concentrating lending to few sectors, banks are able to reduce monitoring costs and consequently reduce risk, which in turn improves overall profitability. From a policy perspective, the study suggests that regulatory authorities should explore alternative measures to mitigate risk rather than simply restricting exposure to given sectors, as such restrictions have minimal concentration-risk impact.

Momba (2019) investigated the determinants of bank profitability in Zambia using panel data from 17 commercial banks covering the period January 2010 to December 2016. Employing a fixed effect model after carrying out a Hausman test, the study regressed profitability measures (return on assets, return on equity, and net interest margin) on bank-specific variables including credit and liquidity risk measures. The empirical findings showed that the ratio of loan loss provisions to total assets significantly affects bank profitability regardless of the profitability measure employed. The results indicated that banks pay more to depositors than they receive from loans, suggesting that most of their profit is derived from operational income rather than interest-based income. Based on these findings, Momba recommended that banks develop policies limiting the amount of loans extended without collateral, allowing commercial banks to reduce and mitigate the high risk of default observed in the study.

Mulwanda (2022) conducted a focused study investigating the effects of credit risk management practices on profitability at Absa Bank Zambia plc. Employing a causal research design, the study collected primary data through self-administered questionnaires from 32 workers in the credit risk management department. Linear regression analysis was used to determine the relationship between credit risk management practices, non-performing loans, and profitability. The study revealed that Absa Bank reviews its credit policy yearly and half-yearly, with employees made aware of credit policies through credit manuals, regular training, regular meetings, and supervision. Methods used in credit risk assessment included risk-adjusted return on capital and linear probability model. Crucially, the study established a negative relationship between the level of non-performing loans and credit risk management practices, with a correlation coefficient of -0.918, implying that the level of non-performing loans is inversely affected by credit risk management practices, thereby affecting bank profitability. The study recommended that banks adopt various credit risk management practices to reduce non-performing loans and increase profitability, and further called for a sustainable and reliable credit database for immediate use by banks.

The effect of investment portfolio decisions on the financial performance of banks

Outside Africa

Empirical research from outside Africa provides important insights into how investment portfolio decisions influence bank financial performance, with studies employing diverse methodological approaches across different markets. Hussain & Majumdar (2025) conducted a comparative study examining the effects of interest rate changes on bank stock returns in the United States versus emerging markets. Utilizing a dataset of monthly bank stock returns from January 2010 to June 2020, the researchers extended the Fama and French five-factor asset pricing model by incorporating interest rate changes based on Stone's (2024) framework. The study analyzed the sensitivity of equally-weighted bank stock portfolios and revealed significant cross-regional differences. While the Fama-French model offered valid results for equity returns in the USA, the findings demonstrated that size and investment factors had little impact on stock returns for banks in emerging markets. Importantly, the volatility of interest rates had a significant effect for both the USA and India, suggesting that the inclusion of interest rate change alongside traditional asset pricing factors adds an important dimension to understanding bank stock performance across different market contexts. The study provides critical implications for policymakers and investors regarding the differential effects of monetary policy on banking sector performance in developed versus emerging economies.

In the European context, Arreola et al., (2022) investigated the spillover effects, portfolio allocation, and diversification potential of bank equity portfolios from developed and emerging countries in Europe. Employing a directional spillover index and nonlinear portfolio optimization methods, the study examined bank equity returns across multiple European markets. The empirical results revealed significant patterns in cross-country spillovers: in developed Europe, the largest spillover receivers and transmitters were banks from France and Spain, whereas in emerging Europe, banks from Greece and Poland occupied these positions. The study found that cross-country spillover transmission and reception was larger across banks from developed Europe than across banks from emerging Europe. Crucially for investment portfolio decision-making, the research demonstrated that banks from emerging Europe offered greater diversification potential and exhibited lower risk for financial resource allocation compared to their developed European counterparts. These findings have important implications for bank managers making strategic investment decisions and for investors constructing portfolios that include banking sector exposures.

A Swedish study by Perman & Persson (2025) investigated whether efficient portfolios could be constructed using funds from a single bank and whether combining funds from multiple banks resulted in superior risk-adjusted performance. Grounded in Modern Portfolio Theory, the study employed efficient frontier modeling and performance metrics including the Sharpe ratio and Jensen's alpha. Analyzing a sample of 20 actively managed equity mutual funds from the four largest Swedish banks (Handelsbanken, SEB, Nordea, and Swedbank), the researchers calculated daily returns, standard deviations, and covariances to construct efficient frontiers and determine tangency portfolios. The results showed that optimized single-bank portfolios from Nordea and Swedbank achieved the highest Sharpe ratios, indicating better risk-adjusted returns than those from SEB and Handelsbanken. All sampled funds exhibited positive Jensen's alpha,

indicating outperformance relative to market benchmarks. Critically, the findings suggested that investors achieve more efficient portfolios by diversifying across banks, reinforcing the fundamental principle that portfolio diversification enhances risk-adjusted returns even within the banking sector.

In the Iraqi banking context, Al-Musawi et al., (2025) sought to determine the effect of return indicators as an independent variable in choosing the components of banks' investment portfolios. The study was conducted in the banking sector of the Iraq Stock Exchange, with a sample of 12 banks covering the period from 2004 to 2016. Using financial indicators appropriate for the purpose and employing advanced statistical methods through SPSS, the research addressed the intellectual problem surrounding the extent to which return indicators impact investment portfolio component selection. The research reached a key conclusion that return indicators clearly impact the choice of investment portfolio components in the sampled banks. Based on these findings, the study recommended activating reliance on granting loans to increase bank revenues, particularly given the high liquidity available in the majority of banks studied, to invest in opportunities arising from changing interest rates. The research also emphasized the importance of benefiting from economic changes by studying both opportunities and threats facing banks.

The research gap emerging from the non-African literature centers on the limited application of sophisticated asset pricing models to banking sector investment decisions across different market contexts. While Hussain and Majumdar (2025) compared USA and emerging markets, their study excluded African markets entirely, leaving a significant geographic gap. Similarly, Arreola et al., (2022) focused exclusively on European banks, omitting analysis of how spillover effects and diversification potential might manifest in African banking systems with different regulatory frameworks and market structures. The Swedish study by Perman & Persson (2025), while methodologically rigorous, is limited to a single developed market context and does not address how bank fund portfolio efficiency might differ in less developed financial markets. Furthermore, none of these studies explicitly examine how specific investment portfolio components (government securities, subsidiary investments, other securities) affect core bank profitability metrics such as Return on Assets and Return on Equity, representing an important theoretical gap that African research has begun to address.

Africa

African empirical research on investment portfolio decisions and bank financial performance has grown substantially, with studies from Ghana providing particularly robust evidence. A seminal study by Sagoe et al., (2025) examined the influence of portfolio diversification on the financial performance of listed banks on the Ghana Stock Exchange. Using a descriptive correlational research design, the study analyzed secondary data from financial statements published over eleven years (2012-2021) through solid statistical methods including fixed effects and random effects models, together with the Hausman test to ensure reliability. The results indicated that the combined impact of the deposit portfolio, the loan portfolio, and the investment portfolio on the financial performance of the banks quoted on the Ghana Stock Exchange was statistically insignificant. However, disaggregated analysis revealed nuanced findings: the highest deposit levels could harm both Return on Assets and Return on Equity performance, while increased loan levels had a positive influence on these metrics. Critically for investment portfolio decisions, investments did not significantly affect ROA but had a remarkable negative impact on ROE. The study strongly recommended that bank management teams take proactive measures to ensure that diversification of their loan portfolios is considered a strategic decision, with the potential to produce positive and significant impacts on general financial performance.

A broader study by Aderogba et al., (2025) investigated post-crisis bank profitability in BRICS economies (Brazil, Russia, India, China, and South Africa), utilizing a panel dataset from the financial statements of listed banks for the post-global financial crisis period of 2009-2020. Employing the dynamic system generalized method of moments estimation within the CAMEL framework, the study demonstrated that profitability is path dependent, with past performance significantly influencing future profitability. The findings revealed that internal factors such as capital management, risk-taking, and operational efficiency played prominent roles, while the effects of external elements such as bank size and broader economic conditions were more subtle. With specific relevance to investment portfolio decisions, risk-taking measured by nonperforming loans appeared to enhance returns but also introduced instability, challenging the relevance of traditional profitability models for emerging markets. The study provided valuable insights into how varying regulatory environments and post-crisis financial conditions across BRICS nations shape bank profitability, emphasizing the need for effective risk management and capital allocation strategies to sustain profitability during periods of economic uncertainty. Notably, the research found that size and investment factors had differential impacts across markets, with South African banks operating in a more developed financial infrastructure compared to other African economies.

Two studies provide partial, indirect evidence relevant to understanding Zambian bank performance, though neither directly addresses investment portfolio decisions. Mwenda (2024) conducted a doctoral study assessing the factors that influence the profitability of Zambian-owned commercial banks throughout the period from January 2013 to December 2021, with a specific focus on First Alliance Bank, Indo Zambia Bank, and ZANACO. The study included descriptive statistics and panel data analysis to investigate the link between profitability measures (ROA and ROE) and several factors including Debt to Equity Ratio, Loan to Deposit Ratio, and Deposits to Assets Ratio. The key findings indicated a positive correlation between Debt-to-Equity Ratio and Return on Assets, though this link was not statistically significant, suggesting that leverage may not have a substantial impact on ROA and that other factors such as operational efficiency may be more important. In contrast, a notable inverse correlation between Debt-to-Equity Ratio and Return on Equity suggested that greater dependence on debt diminishes returns on equity, highlighting the risks of excessive leverage. The study also

discovered a potential adverse effect of Loan to Deposit Ratio on both ROA and ROE, contradicting the conventional belief that a higher LDR results in increased profitability. While this study provides valuable insights into Zambian bank profitability determinants, it does not specifically examine investment portfolio decisions, focusing instead on capital structure and deposit-related ratios.

Kaluba (2024) conducted an empirical study examining the determinants of profitability in Zambian banks from 2010 to 2020, published in the Open Journal of Business and Management. While the specific findings of this study are not detailed in the available search results, the existence of this research confirms that empirical investigation of Zambian bank profitability is feasible and that published research exists in the Zambian context. However, like Mwenda's study, Kaluba's research does not appear to focus specifically on investment portfolio decisions, representing a continued gap in the literature.

The lack of Zambia-specific research on investment portfolio decisions represents a critical gap in the literature, especially considering the country's unique macroeconomic and financial market environment. Zambia faces distinctive challenges including significant currency volatility, a developing capital market with limited investment instruments, high fiscal deficits that affect government securities yields, and a regulatory framework administered by the Bank of Zambia that may differ substantially from those in other African nations. These contextual factors suggest that findings from other countries may not directly apply to the Zambian banking sector without empirical validation. Furthermore, the structure of Zambian banks' investment portfolios, potentially including government securities, interbank lending, subsidiary investments, and other financial assets, may have unique performance implications given local market conditions.

Future research should address this gap by examining several critical questions. First, studies should investigate how different categories of investment portfolio assets (government securities, investments in subsidiaries, equity investments, and other financial assets) affect Zambian bank profitability metrics such as Return on Assets and Return on Equity. Second, researchers should examine whether portfolio diversification across different asset classes enhances or diminishes risk-adjusted returns for Zambian banks. Third, studies should assess how macroeconomic factors such as exchange rate volatility, inflation, and interest rate changes moderate the relationship between investment portfolio decisions and bank performance. Fourth, comparative studies between Zambian-owned banks and foreign-owned subsidiaries operating in Zambia could reveal whether ownership structure influences investment portfolio strategies and outcomes. Finally, researchers should investigate whether the negative relationship between investments and ROE found in Ghana and the positive effects of government securities found in the more recent Ghanaian study hold true in the Zambian context.

2.2 Theoretical Framework

This study was guided by two theories; Modern Portfolio Theory and Agency Theory.

Modern Portfolio Theory

The Modern Portfolio Theory (MPT) is a theory of portfolio choice developed by Harry Markowitz in 1952. The MPT is a sophisticated investment decision approach that aids in classifying, estimating and controlling both the kind and amount expected risk and return. There are a number of government activities and projects that can be organized into portfolios, each with its own budget consistent with the MPT used in financial decision making and asset management under conditions of risk and uncertainty (Khan & Hildreth, 2022). The theory attempts to maximize portfolio expected return for a given level of portfolio risk or equivalently minimize risk for a given level of expected return, by carefully choosing proportions of various assets (Fabozzi et al., 2022). This implies that for the listed commercial banks, combining different investment options whose returns are not perfectly positively correlated, MPT seeks to reduce the total variance of the portfolio return while assuming that investors are rational and markets are efficient. Mathematically, the MPT formulates the concept of diversification in investing with the aim of selecting investment having collectively lower risks than any individual product. With regards to portfolio diversifications, the MPT aids the listed banks in describing investment options in terms of the inherent risks and expected returns, determining the allocation of resources among classes of investments, reconciling risks and returns (Independent Variables) and measuring performance (Dependent Variable).

Agency Theory

The Agency Theory (AT) was developed by Meckling,William and Jensen,in 1976. The theory later extended to finance and managerial accounting realms to determine the optimal amount of risk-sharing, optimal-incentive contracting and establishing accounting control mechanisms to monitor behaviours and actions. The Agency Theory primarily relates to situations in which one person (the agent) is engaged by another person (the principal) to act on his/her behalf. In this case, the listed commercial banks charged with the managerial responsibility take investment decisions and actions on behalf of the shareholders. Both the agents and the principal are utility maximizers motivated by pecuniary and non-pecuniary items that cause incentive problems under conditions of uncertainty and information asymmetry (Yin, 2024).

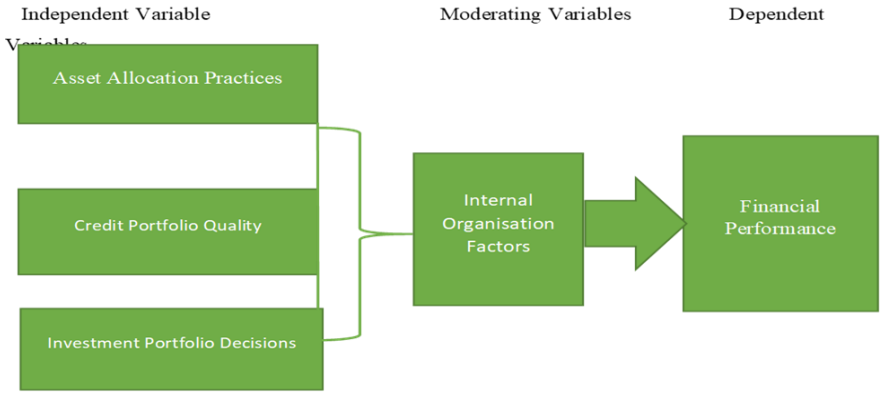
When the principal is well informed about the actions of the agent, then it becomes more possible to curb agent opportunism and thus the agent is bound to act and behave in the interests of the principal. The agency model explains the central problems in hierarchical interactions between managers and investors in policy implementation and policy-making concerns. It also concerns problems that arise when the stakeholders of the listed banks have conflicting views and when both the agents and the principal have different attitudes and preferences towards risk and returns (Phiri, 2025).

2.3 Conceptual Framework

Thus, the conceptual framework connects the financial performance of ABSA Bank in Lusaka to three independent variables:

- Asset allocation practices
- Credit portfolio quality
- Investment portfolio decisions

The dependent variable is financial performance, measured through Asset allocation practices, Credit portfolio quality and Investment portfolio decisions.



Conceptual Frameworks: Source; author (2026)

Figure 1: Conceptual Framework

Operationalization of Variables

Dependent Variables: Effectiveness of Portfolio Management

1. Asset allocation practices in this study are conceptualised as the way ABSA Bank allocates its financial resources among key asset classes, including loans, treasury instruments, and investment securities. The Bank for International Settlements emphasises that sound asset allocation improves returns while minimizing risk by placing funds in instruments that appropriately balance expected with manageable levels of uncertainty (Boungou, 2020). The process of converting the important variables into quantifiable components that enable empirical analysis is referred to in this study as operationalization. Financial performance is the dependent variable, whereas asset allocation strategies, credit portfolio quality, and investment portfolio choices are the independent variables. Modern research that shows portfolio management techniques have a major impact on commercial banks' performance in both established and emerging economies serves as the basis for the operationalisation (Mwangi & Muturi, 2018). Asset allocation practices in this study are conceptualised as the way ABSA Bank allocates its financial resources among key asset classes, including loans, treasury instruments, and investment securities. The Bank for International Settlements emphasises that sound asset allocation improves returns while minimising risk by placing funds in instruments that appropriately balance expected with manageable levels of uncertainty (Boungou, 2020). Accordingly, asset allocation will be assessed based on the proportion of funds committed to various asset categories, the mix between short-term and long-term assets, and the alignment of allocation decisions with the bank's risk appetite and strategic goals. These dimensions will be evaluated through an analysis of financial statements and staff perceptions gathered via structured questionnaires.
2. Credit portfolio quality is operationalised as the overall health and reliability of the bank's loan portfolio. This encompasses the incidence of non-performing loans, patterns of borrower repayment, and the robustness of credit appraisal and monitoring systems. Existing literature indicates that weak credit quality undermines bank performance, particularly in emerging economies where exposure to credit risk tends to be higher (El-Kassem, 2017). In the Zambian context, the Bank of Zambia reported an increase in the non-performing loan ratio from 6.3 per cent in 2021 to 8.7 per cent in 2023, highlighting rising credit risk within the banking sector (Banda, 2023). In this study, credit portfolio quality will be measured using credit performance reports, non-performing loan ratios, and staff evaluations of credit risk management practices.
3. Investment portfolio decisions are defined as the strategic choices made by the bank regarding the selection and management of financial instruments, such as government securities and corporate bonds. According to the African Development Bank, well-designed investment portfolios enhance income stability and liquidity, both of which are critical to sustained financial performance (Kambua, 2015). Consequently, investment decisions will be examined in terms of the types of instruments selected, their maturity profiles, anticipated returns, and liquidity features. Evidence for these indicators will be obtained from investment records and responses to structured questionnaires.

Moderating Variables: Internal Organisation Factors

The influence of Portfolio Management practices on financial performance is shaped by key internal organizational factors:

1. Leadership Support / Adaptive Leadership – Leaders facilitate or hinder Portfolio Management practices based on their willingness to encourage innovation, learning, and decentralized decision-making (Uhl-Bien & Arena, 2021).
2. Organizational Culture – Flexible, learning-oriented cultures strengthen Portfolio Management practices, while rigid, hierarchical cultures suppress them (Argote & Miron-Spektor, 2022).
3. Resource Availability – The presence of logistical and human resources determines whether Portfolio Management practices can be sustained and translated into improved outcomes

Dependent Variables: Financial performance

Financial performance, which serves as the dependent variable, is understood as the overall financial results achieved by ABSA Bank. It will be evaluated using profitability measures such as return on assets and return on equity, liquidity ratios that indicate the bank's capacity to meet short-term obligations, and asset quality indicators reflecting the resilience of the bank's asset base. Empirical studies affirm that effective portfolio management is associated with improved financial performance in commercial banks (Khan et al., 2018). In this study, financial performance will be assessed through audited financial statements, key performance ratios, and staff perceptions of the bank's financial standing.

Through this operationalisation, each variable is clearly defined and linked to measurable indicators, allowing the study to examine the effect of portfolio management practices on the financial performance of ABSA Bank in a systematic and evidence-based manner.

Hypotheses Development

The hypotheses are derived from the conceptual framework and supported by empirical literature that links portfolio management practices to bank performance.

Hypothesis One

H_1: Asset allocation practices have a significant effect on the financial performance of ABSA Bank in Lusaka.

H_0: Asset allocation practices have no significant effect on the financial performance of ABSA Bank in Lusaka.

Hypothesis Two

H_1: Credit portfolio quality has a significant influence on the financial performance of ABSA Bank in Lusaka.

H_0: Credit portfolio quality has no significant influence on the financial performance of ABSA Bank in Lusaka.

Hypothesis Three

H_1: Investment portfolio decisions have a significant effect on the financial performance of ABSA Bank in Lusaka.

H_0: Investment portfolio decisions have no significant effect on the financial performance of ABSA Bank in Lusaka.

3 Research Methodology

The study used a Convergent Parallel Design, which involves simultaneously collecting and analysing quantitative and qualitative data before combining them for interpretation. The researcher compared quantitative financial performance data with qualitative portfolio management staff perspectives thanks to this design. The convergent design is suitable when the researcher wants to collect various but complementary types of data on the same phenomenon, according to Creswell and Plano Clark (2018). The strategy improves the validity of the results and offers a more thorough knowledge of how investment choices, asset allocation, and credit portfolio quality affect financial performance by combining the two data sets.

This method is in line with Saunders, Lewis, and Thornhill's (2019) suggestion that in order to fully represent the complexity of real-world activities, organisational studies should combine statistical evidence with experiential viewpoints. ABSA Bank employees who handle portfolios, such as credit officers, investment officers, risk managers, branch managers, and a few senior employees, make up the research population. These people are the most pertinent group for the study since they have firsthand experience with asset allocation, credit portfolio quality, and investment choices (Cohen, Manion, & Morrison, 2018). Absa has six (6) branches in Lusaka with about 364 employees (Simpasa et al., 2025). For qualitative participants, the study employed convenient sampling; for quantitative individuals, stratified random sampling was used. While stratified sample guarantees representation across departments, purposeful sampling focusses on people with specific skills. While stratified sample lowers sampling bias and improves representativeness (Bryman, 2016), convenient sampling is appropriate for choosing informed informants (Cohen et al., 2018).

Stratified simple random sampling is suitable for the quantitative phase because the ABSA workforce in Lusaka District is heterogeneous, consisting of multiple ranks, departments, and stations. Stratification ensures that all key subgroups such as traffic cashiers, customer care officers, IT, and Finance, operations and investment are adequately represented in the sample (Saunders et al., 2019). This enhances the accuracy of estimates and ensures that findings reflect the wider population structure.

Within each stratum, simple random sampling ensures that every employee has an equal chance of being selected, reducing sampling bias and increasing the generalisability of the findings. This is particularly important in assessing effectiveness

of management portfolio, as experiences may differ across roles, ranks, and departments. A stratified approach therefore strengthens the validity and reliability of the quantitative results (Kothari, 2014).

For the qualitative phase, purposive sampling is most appropriate because the aim is to obtain deep, context-rich insights from individuals with specialised knowledge or meaningful experiences in portfolio management. Purposive sampling allows the researcher to deliberately select departmental leaders, supervisors, and officers directly involved in implementing or overseeing investment portfolio decisions (Creswell & Poth, 2018). Checklists for document reviews, interview guides, and structured questionnaires were used in the study. Financial performance indicators were extracted through document checks, interviews yielded qualitative insights, and questionnaires gathered quantitative data. The validity of results strengthened and triangulation is improved when numerous instruments are used (Saunders et al., 2019). In this study, the questionnaire focussed on measurable aspects of investment portfolio practices, perceived financial performance outcomes, and the frequency or effectiveness of specific organisational change actions within ABSA. Key themes included: types of asset allocation practices adopted, credit portfolio quality, perceived improvements in financial performance.

In-depth key informant interviews (KIIs) will complement the quantitative data by eliciting detailed insights from senior management, specialised IT personnel and the rest of the sections who have direct experience with planning or overseeing and benefit portfolio management initiatives.

With a population of 364 employees, the sample size is recalculated using the Yamane (1967) formula for finite populations:

$n=N/(1+N(e^2))$

Where n is the sample size, N is the population size, and e is the desired margin of error. Substituting a population of 364 and a margin of error of 5% gives:

$n=364/(1+364(〖0.05〗^2))=364/(1+364(0.0025))=364/(1+0.91)=129/1.91≈191$

Therefore, a sample size of about 191 respondents is appropriate. Because the sample size of 191 is directly obtained from the Yamane formula and upholds the well recognised 5% margin of error in social science research, it is scientifically justified (Yamane, 1967). This size of sample is also in line with methodological guidelines, which state that when the population is relatively sizable and the study aims to perform both descriptive and inferential analysis, larger samples are preferred (Saunders, Lewis, and Thornhill, 2019). While maintaining adequate statistical power and representativeness of the 191 portfolio-related employees, the sample is still practically manageable within the operational framework of a single commercial bank, enabling efficient questionnaire administration and potential follow-up.

4 Findings

4.1 Objective 1: To assess the effectiveness of asset allocation practices on the financial performance of ABSA Bank in Lusaka

To assess the effectiveness of asset allocation practices on the financial performance of ABSA Bank in Lusaka. The variables related to asset allocation practices on financial performance of ABSA Bank were analyzed using the weighted average to determine the variables with the highest and lowest perception among the respondents. The results showed that majority of the respondents had a high perception asset allocation decision at ABSA Bank are consistent with the bank's appetite and strategic objectives. They also had a high perception that proper diversification of assets at ABSA bank reduces financial risks and improves performance outcomes.

Majority of the respondents also had a low perception that the bank effectively allocates its financial resources across major asset classes such as loans, treasury instruments, and investment securities and that the current asset allocation strategy of ABSA Bank enhances overall profitability.

Lastly, the respondents had a low perception that the balance between short-term and long-term assets at ABSA Bank supports stable financial performance.

Finally, the respondents also had a low perception that changes in asset allocation practices at ABSA Bank have had a noticeable impact on its liquidity and profitability levels. The results are shown in Table 4.1.

Table 1: Effectiveness of Asset Allocation Practices

	SA	A	N	DA	SD	Mean	Std. Deviation
The bank effectively allocates its financial resources across major asset classes such as loans, treasury instruments, and investment securities.	50 (26.2%)	101 (52.9%)	27 (14.1%)	6 (3.1%)	7 (3.7%)	3.95	0.928
The current asset allocation strategy of ABSA Bank enhances overall profitability.	13 (6.8%)	160 (83.8%)	12 (6.3%)		6 (3.1%)	3.91	0.639
The balance between short-term and long-term assets at ABSA Bank supports stable financial performance.	33 (17.3%)	142 (74.3%)	7 (3.7%)	4 (2.1%)	5 (2.6%)	4.02	0.729
Asset allocation decisions at ABSA Bank are consistent with the bank's risk appetite and strategic objectives.	112 (58.6%)	58 (30.4%)	8 (4.2%)	8 (4.2%)	5 (2.6%)	**4.38**	0.943
Proper diversification of assets at ABSA Bank reduces financial risk and improves performance outcomes.	121 (63.4%	47 (24.6%)	18 (9.4%)	3 (1.6%)	2 (1%)	**4.48**	0.813
Changes in asset allocation practices at ABSA Bank have a noticeable impact on its liquidity and profitability levels.	44 (23%)	98 (51.3%)	35 (18.3%)	7 (3.7%)	7 (3.7%)	3.86	0.936

4.2 Objective 2: To evaluate how the quality of the credit portfolio influences the financial performance of ABSA Bank in Lusaka.

To determine the extent the quality of the credit portfolio influence the financial performance of ABSA Bank in Lusaka, the variable related to quality of credit portfolio were analyzed using the weighted average method. The data analysis results showed that majority of the respondents had a high perception that effective credit appraisal procedures at ABSA Bank contribute to improved financial performance. They also had a high perception that continuous monitoring of loan repayments helps ABSA Bank to maintain strong financial performance. Similarly, the respondent's respondent had a high perception that the current credit risk management practices at ABSA Bank reduce losses and enhance profitability. Lastly, the respondent had a high perception that improvements in borrower repayment behavior lead to better liquidity and profitability at ABSA Bank.

The data analysis also showed majority of the respondents had a low perception that the quality of ABSA Bank's credit portfolio significantly influences its overall financial performance and that high levels of non-performing loans negatively affect the profitability of ABSA Bank. The results are shown in Table 2 below.

Table 2: Quality of the Credit Portfolio

	SA	A	N	DA	SD	Mean	Std. Deviation
The quality of ABSA Bank's credit portfolio significantly influences its overall financial performance.	7 (3.7%)	16 (8.4%)	65 (34.0%)	39 (20.4%)	64 (33.5%)	2.28	1.126
High levels of non-performing loans negatively affect the profitability of ABSA Bank.	10 (5.2%)	3 (1.6%)	113 (59.2%)	18 (9.4%)	47 (24.6%)	2.53	1.045
Effective credit appraisal procedures at ABSA Bank contribute to improved financial performance.	36 (18.8%)	70 (36.6%)	71 (37.2)	3 (1.6%)	11 (5.8%)	**3.61**	.998
Continuous monitoring of loan repayments helps ABSA Bank to maintain strong financial performance.	20 (10.5%)	41 (21.5%)	102 (53.4%)	18 (9.4%)	10 (5.2%)	**3.23**	.944
The current credit risk management practices at ABSA Bank reduce losses and enhance profitability.	17 (8.9%)	40 (20.9%)	100 (52.4%)	23 (12.0%)	11 (5.8%)	**3.15**	.948
Improvements in borrower repayment behaviour lead to better liquidity and profitability at ABSA Bank.	18 (9.4%)	23 (12.0%)	135 (70.7%)	11 (5.8%)	4 (2.1%)	**3.21**	.773

4.3 Objective 3: To determine the impact of investment portfolio decisions on the financial performance of ABSA Bank in Lusaka

To determine the impact investment portfolio decisions, have on the financial performance of ABSA Bank in Lusaka. The data analysis showed that majority of the respondent had a high perception that the expected returns from ABSA Bank's investment portfolio meet the bank's financial performance objectives and that effective management of the investment portfolio reduces exposure to market risk and improves financial performance.

The data analysis also showed that majority of respondents had a low perception that investment portfolio decisions at ABSA Bank significantly influence its overall financial performance. Secondly, they had a low perception that the selection of investment instruments (e.g., government securities, bonds) contributed positively to the bank's profitability. Thirdly, they had a low perception that the maturity structure of ABSA Bank's investment portfolio supports stable income and financial performance.

Lastly, the respondents had a low perception that investment decisions at ABSA Bank enhance liquidity while maintaining acceptable levels of risk. The variable which relates to investment were analyzed used weighted average and the results are shown in Table 3 below.

Table 3: Investment Portfolio Decisions

	SA	A	N	DA	SD	Mean	Std. Deviation
Investment portfolio decisions at ABSA Bank significantly influence its overall financial performance.	7 (3.7%)	6 (3.1%)	37 (19.4%)	115 (60.2%)	26 (13.6%)	2.23	.858
The selection of investment instruments (e.g., government securities, bonds) contributes positively to the bank's profitability.	19 (9.9%)	22 (11.5%)	36 (18.8%)	86 (45.0%)	28 (14.7%)	2.57	1.172
The maturity structure of ABSA Bank's investment portfolio supports stable income and financial performance.	8 (4.2%)	12 (6.3%)	45 (23.6%)	84 (44.0%)	42 (22.0%)	2.27	1.009
Investment decisions at ABSA Bank enhance liquidity while maintaining acceptable levels of risk.	8 (4.2%)	6 (3.1%)	39 (20.4%)	138 (72.3%)		2.39	.745
The expected returns from ABSA Bank's investment portfolio meet the bank's financial performance objectives.		6 (3.1%)	152 (79.6%)	33 (17.3%)		**2.86**	.430
Effective management of the investment portfolio reduces exposure to market risk and improves financial performance.	33 (17.3%)	81 (42.4%)	23 (12.0%)	44 (23.0%)	10 (5.2%)	**3.43**	1.172

4.4 To determine the financial performance of ABSA Bank in Lusaka

To determine the financial performance of ABSA Bank in Lusaka, the variable related to financial performance were analyzed using the weighted average. The results from the analysis showed that majority of respondents had a high perception that proper portfolio management reduces financial risk and improves the stability of the bank's asset base and that changes in portfolio management decisions have a direct impact on the bank's return on assets and return on equity. The results also showed that majority of respondents had a low perception that effective portfolio management practices at ABSA Bank contribute to improved overall financial performance and that the way the bank manages its asset, credit, and investment portfolios enhances profitability. Similarly, the respondents had a low perception that portfolio management practices at ABSA Bank support a strong liquidity position. The results are shown in table 3 below.

Table 4: Financial Performance of ABSA Bank

	SA	A	N	DA	SD	Mean	Std. Deviation
Effective portfolio management practices at ABSA Bank contribute to improved overall financial performance.		119 (62.3%)	36 (18.8%)	25 (13.1%)	11 (5.8%)	3.38	.920
The way the bank manages its asset, credit, and investment portfolios enhances profitability.		119 (62.3%)	53 (27.7%)	13 (6.8%)	6 (3.1%)	3.49	.760
Portfolio management practices at ABSA Bank support a strong liquidity position.		134 (70.2%)	34 (17.8%)	10 (5.2%)	13 (6.8%)	3.51	.876
Proper portfolio management reduces financial risk and improves the stability of the bank's asset base.	42 (22.0%)	97 (50.8%)	36 (18.8%)	7 (3.7%)	9 (4.7%)	**3.82**	.975
Changes in portfolio management decisions have a direct impact on the bank's return on assets and return on equity.	19 (9.9%)	126 (66.0%)	39 (20.4%)		7 (3.7%)	**3.79**	.768

4.5 Regression analysis

The regression analysis was used to test Hypotheses H1, H2 and H3 to determine if Financial Performance had an effect on asset allocation practices, Credit portfolio quality and investment portfolio decisions. The results are as shown below.

H1: Asset allocation practices have a significant effect on the financial performance of ABSA Bank in Lusaka.

The hypothesis tests if asset allocation practices have a significant effect on the financial performance of ABSA Bank in Lusaka was analyzed using regression analysis. The dependent variable financial performance was regressed on predicting variables of effects of asset allocation practices at ABSA bank in Lusaka to test the hypothesis H1. The analysis from the model summary and the ANOVA table predicted that financial performance, $F(6,191) = 56.35$, $p<0.05$) has a significant effect on asset allocation practices at ABSA Bank in Lusaka. These results clearly direct the positive effect of financial performance, $R2=0.648$ depicts that the model explains 64.8 % of the variance in the effects of asset allocation practices at ABSA Bank in Lusaka. The tables 5 and 6 below.

Table 5: Model Summary - Asset allocation practices

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.805[a]	.648	.636	.555	.369

a. Predictors: (Constant), Changes in asset allocation practices at ABSA Bank have a noticeable impact on its liquidity and profitability levels., The bank effectively allocates its financial resources across major asset classes such as loans, treasury instruments, and investment securities., Asset allocation decisions at ABSA Bank are consistent with the bank's risk appetite and strategic objectives., The current asset allocation strategy of ABSA Bank enhances overall profitability., The balance between short-term and long-term assets at ABSA Bank supports stable financial performance., Proper diversification of assets at ABSA Bank reduces financial risk and improves performance outcomes.

b. Dependent Variable: Effective portfolio management practices at ABSA Bank contribute to improved overall financial performance.

Table 6: ANOVA - Asset allocation practices

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	104.168	6	17.361	56.350	.000[b]
	Residual	56.690	184	.308		
	Total	160.859	190			

a. Dependent Variable: Effective portfolio management practices at ABSA Bank contribute to improved overall financial performance.

b. Predictors: (Constant), Changes in asset allocation practices at ABSA Bank have a noticeable impact on its liquidity and profitability levels., The bank effectively allocates its financial resources across major asset classes such as loans, treasury instruments, and investment securities., Asset allocation decisions at ABSA Bank are consistent with the bank's risk appetite and strategic objectives., The current asset allocation strategy of ABSA Bank enhances overall profitability., The balance between short-term and long-term assets at ABSA Bank supports stable financial performance., Proper diversification of assets at ABSA Bank reduces financial risk and improves performance outcomes.

H2: Credit portfolio quality has a significant influence on the financial performance of ABSA Bank in Lusaka.

The hypothesis tests if credit portfolio quality has a significant influence on the financial performance of ABSA Bank in Lusaka was analyzed using regression analysis. The dependent variable financial performance was regressed on predicting variables of credit portfolio quality at ABSA bank in Lusaka to test the hypothesis H2. The analysis from the model summary and the ANOVA table predicted that financial performance, $F(6,191) = 30.801$, $p<0.05$) has a significant effect on credit portfolio quality at ABSA Bank in Lusaka. These results clearly direct the positive effect of financial performance, $R2=0.501$depicts that the model explains 50.1 % of the variance in the effects of asset allocation practices at ABSA Bank in Lusaka. The tables 7 and 8 below.

Table 7: Model Summary - Credit portfolio quality

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
2	.708[a]	.501	.485	.660	.42

Table 4.12; Model summary, credit portfolio quality at ABSA Bank Lusaka; Source: Field data, (2026)

a. Predictors: (Constant), Improvements in borrower repayment behaviour lead to better liquidity and profitability at ABSA Bank., Effective credit appraisal procedures at ABSA Bank contribute to improved financial performance., The quality of ABSA Bank's credit portfolio significantly influences its overall financial performance., The current credit risk management practices at ABSA Bank reduce losses and enhance profitability., High levels of non-performing loans negatively affect the profitability of ABSA Bank., Continuous monitoring of loan repayments helps ABSA Bank to maintain strong financial performance.

b. Dependent Variable: Effective portfolio management practices at ABSA Bank contribute to improved overall financial performance.

Table 8: ANOVA - Credit portfolio quality

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	80.605	6	13.434	30.801	.000
	Residual	80.254	184	.436		
	Total	160.859	190			

a. Dependent Variable: Effective portfolio management practices at ABSA Bank contribute to improved overall financial performance.

b. Predictors: (Constant), Improvements in borrower repayment behaviour lead to better liquidity and profitability at ABSA Bank., Effective credit appraisal procedures at ABSA Bank contribute to improved financial performance., The quality of ABSA Bank's credit portfolio significantly influences its overall financial performance., The current credit risk management practices at ABSA Bank reduce losses and enhance profitability., High levels of non-performing loans negatively affect the profitability of ABSA Bank., Continuous monitoring of loan repayments helps ABSA Bank to maintain strong financial performance.

H3: Investment portfolio decisions have a significant effect on the financial performance of ABSA Bank in Lusaka.
The hypothesis tests if investment portfolio decisions have a significant influence on the financial performance of ABSA Bank in Lusaka was analyzed using regression analysis. The dependent variable financial performance was regressed on predicting variables of investment portfolio decisions at ABSA bank in Lusaka to test the hypothesis H3. The analysis from the model summary and the ANOVA table predicted that financial performance, F (6,191) =10.058, $p<0.05$) has a significant effect on investment portfolio decisions at ABSA Bank in Lusaka. These results clearly direct the positive effect of financial performance, R2=0.2471depicts that the model explains 24.7 % of the variance in the effects of investment portfolio decisions at ABSA Bank in Lusaka. The tables 9 and 10 below.

Table 9: Model Summary - Investment portfolio decisions

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
3	.497[a]	.247	.222	.811	.19

a. Predictors: (Constant), Effective management of the investment portfolio reduces exposure to market risk an improves financial performance., Investment portfolio decisions at ABSA Bank significantly influence its overall financial performance., Investment decisions at ABSA Bank enhance liquidity while maintaining acceptable levels of risk., The expected returns from ABSA Bank's investment portfolio meet the bank's financial performance objectives., The maturity structure of ABSA Bank's investment portfolio supports stable income and financial performance., The selection of investment instruments (e.g., government securities, bonds) contributes positively to the bank's profitability.

b. Dependent Variable: Effective portfolio management practices at ABSA Bank contribute to improved overall financial performance.

Table 10: ANOVA - Investment portfolio decisions

ANOVA[a]					
Model					
Regression					
Residual					
Total					

a. Dependent Variable: Effective portfolio management practices at ABSA Bank contribute to improved overal financial performance.

b. Predictors: (Constant), Effective management of the investment portfolio reduces exposure to market risk a improves financial performance., Investment portfolio decisions at ABSA Bank significantly influence its overal financial performance., Investment decisions at ABSA Bank enhance liquidity while maintaining acceptable lev risk., The expected returns from ABSA Bank's investment portfolio meet the bank's financial performance objectives., The maturity structure of ABSA Bank's investment portfolio supports stable income and financial performance., The selection of investment instruments (e.g., government securities, bonds) contributes positiv the bank's profitability.

4.6 Thematic analysis

The thematic analysis was used to analyze, identify and interpret patterns or themes in the data sets collected from the open-ended interviews guide with the employees from ABSA Bank Lusaka.
Below are the themes from the interviews.

Asset allocation practices

Decision-Making

ABSA Bank focuses on the formal processes to distribute capital across loans, investments, and cash. It also distinguishes between corporate-level strategy (macro goals) and branch-level execution (local market demands). By using this mix the Bank is able to allocate assets effectively.

Profitability

ABSA Bank utilizes a delicate balance between keeping enough cash on hand (liquidity) and deploying funds into higher-yield assets like loans (profitability). ABSA Bank ensures profitability by allocating choices directly to long term and short-term obligations. Thereby creating a balance between long term and short-term allocations.

Risk-Return Optimization
The respondents indicated that ABSA Bank practices the Risk-Return optimization system by weighing potential for high returns against the possibility of default or market volatility. The key concepts include diversification, credit risk assessment, and the use of hedging or buffers to protect the portfolio.
Financial Performance
Changes in asset allocation over recent years have affected financial performance due to changes in economic performance cycles, regulatory shifts, and internal policy changes. These changes have affected asset allocation and the financial performance metrics like Return on Equity (ROE) or Net Interest Margin.
Optimal allocation
ABSA Bank has challenges in implementing optimal asset allocation strategies due to unpredictable market shifts, stringent regulatory requirements, data limitations, or intense competition.

Credit Portfolio quality

Stability
ABSA Bank has a healthy and stable credit portfolio due to its balanced high-level management of risk versus and the performance of its borrowers in the current market.

Technical Metrics
ABSA Bank uses Key Performance Indicators (KPIs) to perform oversight on current credit. The bank uses technical metrics such as Non-Performing Loan (NPL) ratios, Provision Coverage ratios, and Cost of Risk to anticipate any oversight. Therefore, the bank is able to reads the quality of its assets before they become problematic.
Proactive approach
ABSA Bank practices a proactive approach strategy to mitigate risks associated with credit. These practices include credit vetting processes, collateral management, early warning systems, and recovery strategies. These practices provide a safety net thereby preventing portfolio decay.
External pressure
ABSA bank faces mainly external pressures in maintaining high quality credit portfolio. These challenges include high interest rates, inflation affecting borrower repayment capacity, regulatory shifts that require the bank to hold more capital against potential losses and competition from other banks.

Investment Portfolio Decisions

Market Instruments
ABSA Bank invests into Money Market instruments such as Treasury bills, deposits, commercial paper for liquidity and Capital Market instruments such as government and corporate bonds and equities for long-term growth.
Specialization
ABSA has specialized bodies like the Group Risk and Capital Management Committee and the Finance Committee which are align with investment decisions with the bank's "risk appetite" and capital limits.
Enterprise Risk Management
ABSA Bank manages risks associated with investment portfolio through the utilization of the Enterprise Risk Management Framework (ERMF), specifically targeting market risk, interest rate risk, and emerging Sustainability/ESG risks.
Market Challenges
The performance of ABSA Bank's investment portfolio is affected by market illiquidity, geopolitical instability, cybersecurity threats, and the challenge of finding high-quality assets in economy.

Overall Portfolio Management

Robust and data driven system
ABSA Bank has system that is generally viewed as robust and data-driven, leveraging advanced analytics (like the Enterprise Risk Management Framework) to monitor credit, market, and liquidity risks. This system performs well in "normal" market conditions by providing a consolidated view of assets. The Bank uses real-time dashboards for decision-makers.
Advanced Predictive Analytics & AI
ABSA Bank should enhance its current system with Machine Learning (ML) for early warning signals to reduce Non-Performing Loans (NPLs). This involves using non-traditional data systems like behavioural patterns, social-economic shifts to adjust credit limits or investment positions before a default occurs.
Global regulatory shift
ABSA can align its portfolio with global regulatory shifts and "Green Finance" trends to strengthen long-term financial performance, the portfolio system integrates Environmental, Social, and Governance (ESG) scores into the asset allocation process. This reduces "stranded asset" risk and opens access to cheaper international "green" capital.
Dynamic Capital Allocation
ABSA Bank should shift towards a more fluid movements of capital between different asset classes. In order to strengthen performance ABSA Bank requires a system that allows for intra-day, or real-time rebalancing of the investment portfolio

based on yield-curve shifts. Reducing "siloed" decision-making between the Treasury and Credit departments would allow for more efficient use of idle cash.

5 Conclusions and Recommendations

The study concludes that effective portfolio management at ABSA could be crucial for reducing financial risk and enhancing the stability of a bank's asset base. Respondents strongly believe that strategic adjustments in portfolio decisions directly influence key profitability metrics such as return on assets (ROA) and return on equity (ROE). This highlights the importance of dynamic, risk-aware investment strategies in maintaining financial health and performance in Nigerian deposit money banks. The results align with broader financial principles where diversified, well-managed portfolios mitigate volatility and support sustainable growth.

The low perception among respondents that ABSA Bank's portfolio management supports strong liquidity suggests a disconnect between internal practices and perceived effectiveness. Despite the bank's solid capital and liquidity position, inadequate communication or transparency may hinder stakeholder confidence. Active capital and liquidity management are crucial for financial resilience and return on equity (RoE) recovery, emphasizing the need for clearer alignment between strategy and stakeholder understanding.

Declaration of Competing Interests

The authors declare that they are not aware of any competing financial interests or personal relationships that may have influenced the work described in this document.

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Ethical considerations

The article followed all ethical standards appropriate for this kind of research.

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