

MAKERERE



UNIVERSITY

***ASSESMENT OF CREDIT RISK MANAGEMENT PRACTICES AT
EQUITY BANK UGANDA***

BY

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF BUSINESS AND
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DECLARATION

I, **KANEMPE GRACE**, hereby affirm that this research report represents my original work and has not been previously submitted to any institution of higher learning for any academic award.

Signed:



.....

KANEMPE GRACE

Date: *9/AUG/2025*

DEDICATION

I dedicate this report to the Almighty for His Grace and mercy, without which I would not have reached this milestone. I am deeply grateful to my wife wife KYOMUGASHO JUDITH, my boss and brother MUHAMMAD SULAIMAN UMAR together with my family and friends for their unwavering love and support throughout this journey. A special acknowledgment to my Mzee, whose wisdom and emphasis on education have profoundly influenced my path.

APPROVAL

This research report authored by KANEMPE GRACE has been prepared under my supervision and guidance. With my endorsement, it is now finished and prepared for submission to the School of Business Makerere University

Signed: *Ahmed Kitunzi Mutunzi*.....

Date: *9/AUG/2025*.....

DR. AHMED KITUNZI MUTUNZI

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LIST OF ABBREVIATIONS AND ACRONYMS

BOU	Bank of Uganda
CVI	Content Validity Index
ESG	Environmental, Social, and Governance
GDP	Gross Domestic Product
MSMEs	Micro, Small and Medium Enterprises
OECD	Organizations for Economic Co-operation and Development
SD	Standard Deviation
SMEs	Small and Medium Enterprises
SPSS	Statistical package for social scientists
UNSDG	United Nations' Sustainable Development Goals

ABSTRACT

This report aimed at evaluating the effectiveness of Credit Management Practices at Equity Bank Uganda. The study was premised on three objectives to identify the major credit risks associated with Equity Bank Uganda's lending practices, to analyze the identified credit risks and their impact on the bank's loan portfolio performance and to evaluate the effectiveness of Equity Bank Uganda's current credit risk management measures, including strategies to avoid, accept, or mitigate risk. The study employed a cross-sectional and descriptive research with a mixed study approach which involved collecting numerical data from 72 respondents and interviewing 5 key informants. Quantitative Data was analyzed using the statistical package for social science (SPSS Version 27) while qualitative Data was analyzed using Atlas ti (version 9). The study found that Major risks included inadequate borrower assessment, overexposure to high-risk sectors, inconsistent collateral enforcement, and limited staff capacity in credit evaluation. These weaknesses were found to negatively affect loan portfolio performance, contributing to non-performing loans and unstable recovery outcomes. While political shocks and small-scale borrowers were not universally seen as disruptive, current risk mitigation strategies were viewed as insufficient. The effectiveness of existing credit risk management measures received mixed feedback, with concerns about unclear procedures, weak internal audits, and underutilized monitoring tools. However, recovery procedures were generally seen as beneficial. Overall, the findings highlight the need for stronger institutional frameworks, improved staff training, and more robust risk assessment systems.

CHAPTER ONE: INTRODUCTION

1.1 Introduction

This chapter presents the background of the study, statement of the problem, the objectives of the study, research questions, Scope of the study, delimitations, and significance of the study.

1.2 Background

Global credit practices in commercial banks emphasize robust credit risk management to ensure financial stability and profitability (Temba, et al. 2024; Siddique et al., 2022). These measures involve evaluating borrower creditworthiness, enforcing rigorous credit policies, and leveraging advanced tools such as credit portfolio management systems for risk monitoring (Quaglietti, 2024; Qureshi and Lamarque, 2023). To mitigate sector-specific risks, banks emphasize credit portfolio diversification, enabling them to navigate economic downturns and regulatory shifts effectively. Furthermore, the integration of data-driven approaches, including predictive analytics, has improved credit allocation and risk assessment processes (Addy et al., 2024; Lawrence, et al., 2024). Collectively, these strategies seek to optimize profitability while managing risks in an evolving financial landscape (Kwashie, et al. 2022)..

In Africa, credit risk management has gained prominence in recent years, particularly following the traumatic events and bank failures linked to rising non-performing loans (Agaba, 2022). To address these challenges, banks have adopted predictive analytics in their credit risk management processes, marking a transformative shift in the sector (Bhatt et al., 2023). This evolution, driven by advancements in data processing technologies and analytical methodologies, has significantly enhanced credit appraisal, risk identification, monitoring, control, and collection strategies (Lawrence et al., 2024). Such developments highlight not just technological progress but also a proactive response to an increasingly complex financial landscape, characterized by volatile market conditions and the urgent need for accurate and efficient risk assessment mechanisms (Nsabimana and Kengere, 2023).

In the context of East Africa, the situation is similar, as commercial banks are adopting various practices to mitigate credit risk (Metawa et al., 2023). These banks have

embraced diverse and multifaceted strategies, including diversification, consolidation, digitalization, mergers, and risk transfer through financial instruments such as credit default swaps (CDS) and securitization (Mrindoko, 2021). Additionally, they have enhanced the implementation of guarantee policies to improve loan management. However, challenges such as non-performing loans (NPLs) and written-off bad debts remain significant issues for commercial banks. In Kenya, Kimani and Kibera, (2023) observed that banks continue to lend to serial defaulters. Similarly, Nsabimana and Kengere (2023) reported that most commercial banks in Rwanda exceeded the maximum NPL ratio set by the National Bank of Rwanda's prudential regulations. In Tanzania, Majondo et al.(2023) noted that despite efforts by the Bank of Tanzania (BoT) to emphasize these strategies, the trend of NPLs in the country remains unstable, surpassing the global standard of 5%.

In Uganda, commercial banks have actively adopted credit practices such as credit risk identification, credit assessment, credit monitoring, and credit risk control(Francis et al., 2022). Additionally, Bank of Uganda has consistently reviewed and updated credit standards. These standards consist of internal banking rules, criteria, and guidelines that determine the types of loans (e.g., collateralized, non-collateralized, investments, overdrafts), their amounts, and the clients eligible for them, based on classifications such as sector, area, size, duration, and financial indicators (*Bank of Uganda, 2024*). These guidelines play a crucial role in steering commercial banks when issuing loans. However, there has been an increasing trend in non-performing loans as a proportion of gross loans and advances. For example, over the past five years, this ratio has risen from 3.8% in 2019 to 5.76% in 2023 (*Bank of Uganda, 2023*). Therefore, it is vital for this study to investigate the credit practices among commercial banks in Uganda.

In Uganda, Equity Bank Limited, a well-known financial institution, uses internal monitoring to assess the quality of its loan portfolio. By categorizing customers into different rating classes, helps the bank to assess borrowers' ability to repay interest and capital, adjust lending limits, and request appropriate collateral (*Anon, 2023*). However, the bank faces persist challenges in meeting loan repayment requirements set by both internal standards and those mandated by Uganda's central bank (*Equity bank Limited, 2017-2023*). Remarkably, Equity Bank's experience is consistent with that of other commercial banks in Uganda, which all follow Central Bank of Uganda regulations.

1.2 Problem Statement

Effective credit risk management practices are crucial for commercial banks as it ensures the stability of financial operations, minimizes the likelihood of loan defaults, and promotes long-term profitability and regulatory compliance (Alfiana et al., 2024). Equity Bank has implemented measures such as digital loan payments, collateral requirements, and loan repayment rescheduling programs to improve loan repayment (Equity Bank, 2022). Despite these initiatives, the bank continues to struggle with a rising number of non-performing loans, interest in suspense, and bad debts written off. According to the Equity Bank Reports (2023), Non-Performing Loans (NPL) from 2018 to 2023 have increased by an average of 117.79% over the past five years, accompanied by an average increase of 94.62% in bad debts written off during the same period, reaching 60.75 billion in 2023 (Equity Bank Uganda, 2023). Additionally, interest in suspense has increased by an average of 140.48% between 2018 and 2023, as shown in Table 1.1, which has heavily affected the company's profitability, leading to a loss of -18,779 million for the year ended December 2023.) In light of these challenges, the objective of this study is to evaluate the effectiveness of Credit Management Practices at Equity Bank Uganda.

1.4 Purpose of the Study

The purpose of the study is to evaluate the effectiveness of Credit Management Practices at Equity Bank Uganda.

1.5 Specific Objectives of the Study

- i. To identify the major credit risks associated with Equity Bank Uganda's lending practices.
- ii. To analyze the identified credit risks and their impact on the bank's loan portfolio performance.
- iii. To evaluate the effectiveness of Equity Bank Uganda's current credit risk management measures, including strategies to avoid, accept, or mitigate risk.

1.6 Research questions of the study

This research was guided by the following questions:

- i) What are the major credit risks associated with Equity Bank Uganda's lending practices?
- ii) What are the identified credit risks and their impact on the bank's loan portfolio performance?
- iii) What is the effectiveness of Equity Bank Uganda's current credit risk management measures, including strategies to avoid, accept, or mitigate risk?

1.7 Significance of the study

The study is important to different stakeholders as shown below

Equity Bank Uganda (Management and Staff)

This study helps the management of Equity Bank Uganda understand how their credit management practices affect loan performance. It identifies strengths in current procedures and points out areas that need improvement. By offering practical insights, the study guides the bank in refining its loan issuance and recovery strategies. Ultimately, it helps reduce the rate of non-performing loans and improves overall financial stability.

Customers and Borrowers

Customers benefit from better services when the bank improves its credit management. Loan processing becomes faster, and customers receive fairer assessments when applying for credit. With better systems in place, more people—especially small businesses and low-income earners—gain access to loans.

Shareholders and Investors

Shareholders want the bank to be profitable and safe to invest in. This study can help by identifying weaknesses in how the bank handles loans. When credit risk is better managed, there are fewer losses, and profits increase. This gives shareholders more confidence in the bank's operations and future returns.

Regulatory Authorities (e.g., Bank of Uganda)

The study helps regulators like the Bank of Uganda see how well Equity Bank follows credit risk management rules. It also provides insights for improving the regulations

that guide banks. By examining actual practices, regulators develop better policies for the entire banking sector.

Academicians and Researchers

This study helps regulators such as the Bank of Uganda assess how well Equity Bank adheres to credit risk management rules. It provides insights that support the improvement of regulatory frameworks across the banking sector. By examining actual practices, policymakers develop more effective and relevant policies.

For students and researchers, the study serves as valuable reference material for understanding credit management in Uganda. It offers real-life examples and data from Equity Bank, which support academic learning and future research. The findings may also inspire further studies in the field of banking and finance.

Policy Makers and Government

This study provides information that policy makers can use to improve financial services in the country. If credit is managed better, it helps small businesses grow and boosts the economy. The government can use such findings to support economic development and financial inclusion.

1.8 Scope of the study

The scope of the study looked at in three perspectives that is content, geographical and time scope.

1.8.1 Content scope

The content scope of the study was limited credit risk management practices at Equity bank Uganda, looking at credit risk management challenges at Equity bank Uganda Limited and suggest ways of improving credit risk management at Equity bank Uganda Limited.

1.8.2 Geographical scope

The study was conducted at the Equity Bank, located at 2nd Floor, church house, equity Bank Uganda's head office is located in Church House on Kampala Road in the central business district of Kampala, Uganda. This location serves as the central hub for the bank's operations, providing access to key departments involved in credit risk management and lending practices.

1.8.3 Time scope

The study focused on EQUITY BANK Uganda main office in Kampala district looking at the information/ credit policies since 2018 to 2023. This time has been considered because this is the time banks have had an increase in the non-performing

CHAPTER TWO:

LITERATURE REVIEW

2.0 Introduction

This chapter presents the theoretical and empirical review of theories and past studies on Credit Risk Management Practices.

2.1 Empirical review

2.3.1 The major credit risks associated with commercial bank's lending practices.

Ongoing active monitoring and management of credit risk positions is an integral part any credit risk management activities. Monitoring tasks are primarily performed by the divisional credit risk units in close cooperation with the business which acts as first line of defense, dedicated rating analysis teams and portfolio management function (Mayer, 2011). Credit counterparties are allocated to credit officers within specified divisional risk units which are aligned to types of counterparties (such as financial institution or corporate) or economic area. The individual credit officers within these divisional risk units have the relevant expertise and experience to manage the credit risks associated with these counterparties and their associated credit-related transactions (Deutsche Bank, 2011).

Kariuki, (2019) stresses that a more stringent credit monitoring procedure would lead to ensuring that only creditworthy customers access loans. Banks should be stringent enough to ensure that their loans do not go to persons who lack the capacity to repay (Kariuki, 2019). The monitoring systems adopted should further ensure that instead of keeping financial performance to a minimum, the banks aim at outstanding performance (Kariuki, 2019)

Karugu and Ntoiti , (2015) found that credit monitoring accounts for 47.8 percent of the changes in profitability. Regarding credit risk monitoring, Cain (2014) advises executive managers to exercise risk tolerance. This helps the bank management to suggest possible strategies for reducing such a high risk which prevents non-performing

loans and bad debts, thereby reducing profitability. Marisit (2018) identifies potential clients may become risky. A reduction in revenue losses implies that net income will increase profitability.

According to Nyong'o (2014), credit risk monitoring increases return on assets as well as profitability. Banks which minimize the level of non-performing loans perform better than those which do not. The author, however, does not show how these two factors increase non-performing loans. Wambugu (2019) argues that establishing credit risk monitoring will provide essential, and clear information; if delivered timely and can improve the profit levels of the bank.

Continuous monitoring and management of credit risk positions are essential in credit risk management. Monitoring is primarily conducted by divisional credit risk units in collaboration with business sectors that serve as the first line of defense, alongside dedicated rating analysis teams and portfolio management functions (Mayer, 2018). Credit counterparties are assigned to specific credit officers within designated risk units, structured according to counterparty types—such as financial institutions or corporations—or economic sectors. These officers have specialized expertise in managing credit risks associated with counterparties and related transactions (Deutsche Bank, 2022).

2.1.2 The analyze and rank the identified credit risks based on their frequency and impact on the bank's loan portfolio performance

Remy and Njeru (2021) examined how credit risk identification influences the financial performance of commercial banks in Burundi. Their findings indicated that successful credit risk identification has positively impacted banks in the region. The study emphasized that an effective risk tracking system significantly enhances financial performance (Remy & Njeru, 2021).

Mutua (2019) asserted that banks employing modern credit risk identification techniques can detect errors early. However, Gakure, Ngugi, & Ndwiga (2012) did not conduct inferential tests to confirm the relationship between risk identification and financial performance, relying solely on descriptive analysis. Thus, further correlational studies were needed to verify these findings. Kimotho (2016) identified a positive relationship between credit risk identification and financial performance. However,

while Kimotho's study focused on financial performance in Kenya, the current study examines loan performance.

Loan Portfolio Performance in commercial banks can decline due to various factors. According to a study by Le Dinh Hac from the Banking University of Ho Chi Minh City, key factors include inefficient credit risk management strategies, such as weak credit monitoring, insufficient credit assessment, and ineffective recovery approaches. Economic downturns also contribute to declining borrower creditworthiness, increasing non-performing loans (Mayer, 2011).

Weak internal controls further affect loan portfolio performance, including inadequate audit functions, lack of proper documentation, and poor segregation of duties. Insufficient capitalization limits a bank's ability to absorb losses from non-performing loans. Additionally, poor loan diversification—such as over-reliance on a specific industry or sector—can lead to concentration risk (Kariuki, 2019).

2.1.3 The effectiveness of Commercial Bank's credit risk management measures, including strategies to avoid, accept, or mitigate risk

Credit control is a business strategy designed to ensure that credit is only extended to customers who can repay and that payments are made on time. It is an integral part of financial management, especially in manufacturing, helping businesses convert sales into liquid assets (Dasah, 2012). Given the intricate nature of banking, credit control encompasses aspects such as credit quality, extension, and cyclical trends. A well-structured and disciplined credit control system forms the backbone of credit risk management by guiding lending and borrowing decisions (Ndyagyenda, 2020).

Nyawera (2013) highlights the importance of collateral, explaining that it enhances financial performance by providing security for loan repayment. Research findings align with this perspective. Customer agreements positively influence loan performance, as demonstrated by studies on loan documentation by Moti, Masinde, Mugenda & Sindani (2012) and Justus, Dickson, and Harrison (2016). This process includes offering diverse loan types and assessing customers' ability to repay. However, credit risk control approaches in Kenya and Uganda may vary due to cultural differences (Dexiang & Desheng, 2021).

Mbiti, Lugogo, and Koech (2018) demonstrate that commercial banks that implement collateral and credit protection strategies experience improved profitability by minimizing credit losses. The authors indicate that collateral and credit protection strongly contribute to financial stability compared to credit rationing and evaluation. Notably, credit protection is considered the most effective method for managing risks associated with customers with diverse financial profiles.

Kenton (2019) stresses that credit risk control must account for potential disasters that could affect an organization's objectives. Effective risk control enables firms to mitigate threats, manage losses, and stabilize revenue. Kalu, Shieler, and Amu (2018) emphasize that diversification is crucial in credit risk management and financial performance. By diversifying loan portfolios across high-yield economic sectors, institutions can optimize benefits and minimize risks.

Mbiti, Lugogo, and Koech (2018) analyzed the influence of credit risk management strategies on the financial stability of commercial banks in Kilifi County. Their study employed questionnaires and a descriptive research approach, utilizing statistical tools such as Mann Whitney tests and regression analysis. Findings indicate that banks use various risk management tools, including credit protection and collateral, to reduce losses. The report recommends that banks develop risk management policies aligned with their corporate goals and risk tolerance.

Serwadda (2018) examined the link between credit risk management and financial performance among Ugandan commercial banks from 2006 to 2015. He advised banks to refine their credit risk strategies to uphold asset quality and profitability. Institutions should monitor nonperforming loans, loan loss provisions, and interest earnings—all of which significantly impact financial outcomes. Additionally, banks must develop comprehensive credit policies, establish strong credit administration teams, conduct thorough loan evaluations, and continuously monitor loans from disbursement to full repayment to reduce credit risk.

2.4 Conclusion

The study emphasizes the importance of effective credit risk management practices in mitigating non-performing loans and improving loan portfolio performance. It suggests that robust strategies, including monitoring and control, can positively impact financial performance. These include stringent credit monitoring procedures, diversifying loan

portfolios, using collateral and credit protection measures, and maintaining strong internal controls. The study also recommends strategies for loan portfolio improvement, such as improving credit control systems, enhancing collateral management, and diversifying loan offerings. However, it acknowledges challenges such as inadequate financial analysis, economic downturns, and insufficient internal controls.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design, study population, sample size, sampling technique, data collection method and instruments, data collection procedure, data processing and analysis and ethical issues.

3.2 Research design

The study used an evaluative research design that involved the use of a quantitative approach in analyzing the effectiveness of credit risk management practices at Equity Bank Uganda. This approach was selected because the study was not only time-constrained but also aimed to describe the incidence of a phenomenon (Saunders, Lewis, & Thornhill, 2009). According to Saunders et al. (2009), it was necessary to have a clear picture of the phenomena on which data was to be collected prior to the actual data collection, hence the adoption of a descriptive research design. Quantitative analysis facilitated a statistical description of the variables and tested the major causes, while qualitative methods supported the identification of underlying factors related to the study variables, providing a deeper understanding of the quantitative findings.

3.2 Study area

The study was conducted among staff of Equity Bank Uganda Limited from the credit department at the headquarters located in Kampala City. The bank was situated on Plot 26 Kyadondo Road, Nakasero, Kampala, Uganda. The headquarters of Equity Bank Uganda Limited held more data and records on loan interest repayment than other

branches, as it served as the central office overseeing the bank's operations and finances.

3.3 Study population

The study considered 150 staff members of Equity Bank Uganda Limited at the head office (Equity Uganda Bank Ltd, 2025). This was the actual number of staff according to the official bank document (Equity Bank, 2024). This population was selected due to the identified problem of low achievement in borrower loan interest payment across different loan categories at the main office, as reported in the bank's annual report (Equity Uganda Bank Ltd, 2024).

3.4 Sample Size

3.4.1 Sample Size Determination for quantitative method

The sample size for this study, 108 staff was determined using Krejcie and Morgan's (1970) table for sample size determination. This table is commonly used to calculate the required sample size for a given population, based on specific criteria such as category proportion. The staff informed the researcher's unit of inquiry, as they were the ones who faced challenges related to high interest payments by borrowers.

Table 3. 1: Sample determination table of the Staff

Category	Population	Sample size	Sampling Technique
General staff	150	108	Simple random sampling
Head of credit department	5	5	Purposive sampling
Total	155	113	

Source: Study population accessed from Database for Equity Bank Uganda Limited (2024) and sample size determined using the Krejcie & Morgan model (1970).

3.4.2 Sample size determination for qualitative method

For qualitative research, the common method used to establish the sample is reaching the point of saturation. In this study, this approach was utilized to determine the sample size of respondents on whom interviews were conducted. These included five members of the credit department who were charged with monitoring the efficiency and effectiveness of loan interest repayments.

3.5 Sampling Technique

3.5.1 Sampling technique for quantitative method

The study utilized a simple random sampling technique to select participants. Simple random sampling is a method in which each member of the population has an equal chance of being selected for the sample (Bhardwaj, 2019). This technique was chosen for its ability to minimize bias and ensure that the sample was representative of the population of interest. The rationale for choosing simple random sampling was to promote fairness and impartiality in the selection process. By giving each staff member an equal chance of being included in the sample, the study aimed to obtain a sample that accurately reflected the characteristics of the broader population at Equity Bank Uganda Limited.

3.6 Data collection methods and instruments

The study employed a survey method of data collection, utilizing both interviews and self-administered questionnaires conducted over a period of three (03) weeks. Interviews were used to gather valid and reliable data relevant to the research questions and objectives, while questionnaires provided an efficient means of collecting responses from a large sample prior to quantitative analysis (Saunders et al., 2009).

3.6.1 Data collection using a questionnaire

The researcher utilized a structured questionnaire, which, according to Saunders et al. (2009), is practical, facilitates the collection of data from a sizeable number of participants, and can be administered with minimal impact on reliability and validity. The instrument was divided into four sections: Section A captured demographic data; Section B focused on factors influencing credit monitoring; Section C addressed challenges in credit identification practices; and Section D explored credit risk identification. Each section included clear instructions to guide respondents in completing the items, and all questions were close-ended to enhance consistency and ease of analysis, given respondents' familiarity with this format.

A Likert scale was employed to measure attitudes and perceptions, as it is one of the most widely used and effective tools for such purposes. Respondents were asked to indicate their level of agreement with various statements on a scale ranging from 1 (strongly disagree) to 5 (strongly agree). The questionnaire was refined following a pilot study to ensure clarity, relevance, and reliability of the instrument.

3.6.2 Data collection using an interview guide

An interview guide was used to collect qualitative data. The researcher designed a structured interview guide to facilitate interviews with key respondents—Senior Management Staff at Equity Bank—who were responsible for monitoring and overseeing loan interest repayments. The questions posed were intended to elicit responses aligned with the study objectives and to allow for probing where clarification was needed. All interviews were conducted face-to-face, each lasting approximately 20 minutes per respondent, and anonymity was strictly maintained throughout the process.

The interview guide was organized into four sections: Section A focused on the demographic characteristics of the respondents; Section B contained questions related to factors affecting interest payment; Section C explored challenges associated with interest repayment; and Section D addressed strategies for improving interest payment. This structure ensured comprehensive coverage of the key thematic areas relevant to the study.

3.7 Validity and Reliability

The questionnaire was designed to meet specific research objectives, ensuring its validity and reliability.

3.7.1 Quantitative study Validity and Reliability

Validity

The study carried out both face and content validity assessments. Face validity involved the supervisor reviewing the questionnaire items and providing guidance on their appropriateness and clarity. Content validity was assessed by the supervisor in collaboration with an expert from Equity Bank, Makerere Branch. These validity tests were conducted to ensure that the results obtained from the questionnaire survey accurately reflected the dimensions under assessment (Sürücü & Maslakci, 2020).

A minimum Content Validity Index (CVI) value of 0.7 or above was required for the instrument to be accepted as valid. The validity of the questionnaire was established through expert consultation, pre-testing, and subsequent adjustments based on feedback. The CVI was computed using the following formula.

$$CVI = \frac{\text{No.of questions declared valid}}{\text{Total No.of questions}} * 100$$

Content Validity Index (CVI) will be computed for each instrument using the following formula adopted from (Amin, 2005)

$$CVI = \frac{R}{R+IR}$$

Where: *CVI* is the content validity Index,

R is the number of relevant items and

IR is the number of irrelevant items

Reliability

The study tested the internal consistency of the research instruments using the Cronbach's alpha coefficient, computed in SPSS version 27. Reliability of the questionnaire was enhanced through pre-testing with pilot samples, and the resulting computations were examined to ensure consistency and dependability. This reliability test was conducted to determine whether the items functioned effectively as measurement tools (Melo et al., 2021). In line with Sekaran (2003), a Cronbach's alpha value of 0.7 or above was considered acceptable for establishing reliability.

3.8 Data Analysis

3.8.1 Quantitative data analysis

Data were coded and analyzed using the Statistical Package for the Social Sciences (SPSS) version 23. Quantitative analysis adopted a descriptive approach, with data summarized in tables and graphs to facilitate interpretation of numerical variables and the drawing of meaningful conclusions. Percentages, means, and standard deviations were computed and interpreted to provide insights into the distribution and variability of responses.

Measures of central tendency were used to describe how data values clustered around a central point, thereby establishing a typical numerical representation within the dataset. Pearson's rank correlation coefficient was employed to assess the significance of relationships between identified factors and the dependent variable (Saunders et al., 2009). Data were analyzed and reported in terms of frequencies and percentages for each sub-dimension, and results were presented in tabular form. This approach enabled

the researcher to draw significant conclusions regarding loan interest repayments at Equity Bank..

3.8.2 Qualitative data analysis

All qualitative data collected through the use of interview schedules were organized into meaningful and exhaustive categories. A summary of the key points that emerged was developed by condensing lengthy responses into concise statements and grouping similar views together to facilitate interpretation. This process enabled the researcher to make coherent sense of the data generated.

Principal themes that emerged from responses to each question in the interview guide were identified and later presented in the discussion of findings (Saunders et al., 2009). This thematic approach allowed for a structured and insightful analysis of the qualitative data, highlighting patterns and perspectives relevant to the study objectives..

3.8 Ethical considerations

The researcher adhered to standard ethical considerations throughout the study. Informed consent was obtained from all respondents prior to their participation. Ethical principles such as respect for intellectual property were upheld, with strict avoidance of plagiarism. Privacy was maintained by refraining from using the names of respondents, and confidentiality was ensured in the handling and reporting of data. The researcher also fulfilled all responsibilities associated with ethical research conduct, including transparency, integrity, and respect for participants' rights.

3.9 Summary of the chapter

This chapter has described the research methodology, which included design, population, sample, data sources, data collection tools, and validation techniques. To ensure that the study adheres to ethical standards, ethical considerations have also been outlined. The study employed a descriptive cross-sectional design in which quantitative data will be collected from 108 staff at Equity bank head office to analyse for percentages, means, and standard deviations using SPSS version 27

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS.

4.1 Introduction

The purpose of this study is to study is to evaluate the effectiveness of Credit Management Practices at Equity Bank Uganda. As such, this chapter presents the response rate, respondent demographic characteristics and the study results based on the following specific research objectives and discussion on the findings.

4.2 Response Rate

The response rate is the percentage of people who responded to the survey, calculated by dividing the number of people who completed the survey by the total sample. It is critical to obtain a high response rate because it ensures the reliability of survey results. In general, there is no specific desired response rate, as this varies between surveys depending on the method that is preferred (Kartsounidou & Andreadis, 2015).

Table 4. 1: Response Rate

Category	Data type	Sample size	Actual Size	Response Rate
Regular Bank Staff from Credit department	Quantitative	108	72	66.67%
Department heads and managers	Qualitative	5	3	Saturation
Total		113	75	66.67%

Source: Primary Data (2024)

The study targeted 113 respondents. Out of these, 75 respondents participated in the study. Three (03) of the study participants were key informants and participated in key informant interviews while the 72 completed self-administered questionnaires. In total, 72 respondents took part in quantitative study giving a response rate of 66.7% which above 60% recommended by Sekeran (2003) to be representative enough to make generalization especially in social research.

4.3 Demographic Characteristics of the respondents

This subsection presents the demographic information of the respondents in terms of gender of the respondents, experience, age group, level education, category of loans, and department they belong to in the organization.

4.3.1 Gender of the respondents

Table 4. 2: Showing Gender of the Respondents

Gender	Frequency	Percent (%)
Female	46	63.4
Male	26	36.1
Total	72	100

Source: Primary Data (2025)

The findings in Table 4.2 show that the majority of respondents were female, with males making up a smaller proportion. This reflects the broader trend in Uganda's banking sector, where female staff generally outnumber their male counterparts, as noted by Okafor (2023). The Equity bank (2025) also highlights that the proportion of female staff is significantly higher than that of male staff. This suggests that female employees are playing a leading role in the banks' efforts toward credit risk management. Moreover, the composition of respondents indicates that the study captured insights from both gender group.

4.3.2 Experience of the bank Staff

Table 4. 3; Showing Experience of the bank Staff

Item	Frequency	Percent
Less than a year	6	8.3
Between 1 and 5 years	12	16.7
Between 6 and 10 years	23	31.9
More than 10 years	31	43.1
Total	72	100

Source Primary data (2025)

Furthermore, the study sought to understand the bank staff's experience, as this influences their views on the study, and thus the study intended to include their perspectives from various groups. The distribution of bank workers' experience, as shown in Table 4.3, indicates that a significant portion have more than 10 years of experience, followed by those with 6–10 years, while the smallest group comprises those with less than a year of experience. The presence of experienced personnel suggests that the bank is likely to have effective credit risk assessment and management

practices, positively influencing loan performance. Additionally, the high level of experienced staff reflects a strong employee retention rate at the bank, which can contribute to stability and consistency in loan management practices.

4.3.3 Age bracket

Table 4. 4: Showing Age Group of the Respondents

Age group	Frequency	Percent (%)
18-29	9	12.7
30-39	26	35.6
40-49	21	29.7
50-59	15	20.3
60 years and above	1	1.7
Total	72	100

Source: Primary Data (2025)

The study also sought to understand how different age groups were represented and how they held different viewpoints. The results revealed that most of the bank employees fall within the age bracket of 30–39, followed by those in the 40–49 age range, with the smallest representation being those aged 60 and above, as indicated in Table 4.4. This suggests that the bank staff are fairly mature, grounded, and experienced—qualities essential for making informed decisions in managing credit risks. Employees in these age groups are likely to possess a blend of experience and adaptability. Those in their 30s and 40s typically have substantial industry exposure, equipping them with the skills to assess and manage credit risks effectively. Their seasoned perspective enables them to identify potential risks, apply nuanced judgment, and make informed decisions based on both historical data and current market conditions. This depth of experience is vital for minimizing loan defaults and enhancing credit risk management strategies.

4.3.4 Level of education

Table 4. 5: Education levels of bank Staff

Item	Frequency	Per cent
Diploma	3	4.17
Bachelor’s degree	58	80.56
Master’s degree	11	15.28
Total	72	100

Source: Primary data (2025)

The study went on to investigate the respondents' educational level, as this shapes their perspective on the topic of study. According to the findings in Table 4.5, the majority of respondents held a bachelor's degree, followed by a smaller group with master's degrees, and the least holding diplomas. This is attributed to the fact that the minimum qualification currently required to join the banking sector is a bachelor's degree (Equity Bank Human Resource Report, 2023), making it the most common level of education among staff. Others pursue postgraduate education to qualify for administrative positions. Since Equity Bank is a universal employer, those with diplomas could be interns, as the study was conducted during the internship period. This indicates that banks employ knowledgeable staff with the skills needed to guide decision-making processes such as credit risk management. The high level of education among staff suggests that they are well-versed in the knowledge and analytical abilities required for effective credit risk management. This, in turn, enhances the bank's capacity to make informed judgments about loan approvals and risk assessment, ultimately benefiting overall loan performance.

4.3.5 Position held of the respondent

Table 4. 6: Table showing Position held of the respondent

Department	Frequency	Percentage
Credit officers	58	80.6%
Credit supervisors	12	16.7%
Managers	2	2.8%
Total	72	100

Source: Primary data (2025)

The bank staff indicated their current positions, and the results are as shown in Table 4.6. The majority of respondents were credit officers, followed by credit supervisors, with managers being the least represented. The large number of credit officers is expected, given that the study focused on credit risk management practices and therefore sought input from a substantial number of participants within the credit department. These individuals serve as key informants, as they not only engage daily with credit management practices and credit quality, but are also considered custodians of relevant bank information in this domain.

4.3.6 Portfolio Quality at Equity bank Head office Branch

Category	Frequency	Percentage
Current Loans (1-29 days)	27	4.2
30-59 days loans	171	26.9
60-89 days	88	13.9
Above 90 (non-performing loans)	349	55.0
Total	635	100

Source: Primary Data (2025)

The loan portfolio at the Equity Bank Head Office Branch reveals concerning trends in loan quality. A substantial portion of the loans are non-performing, meaning they are overdue by more than 90 days. This high proportion of problematic loans underscores significant challenges with repayment and overall credit risk. Additionally, only a small fraction of the loans are current, with a minimal number falling into the category of being just slightly overdue. A notable segment of the portfolio consists of loans that are 30–59 days overdue, serving as an early warning sign of potential further deterioration if not addressed. Another portion falls into the 60–89 days overdue category, which, while less critical than the non-performing segment, still represents a considerable risk. To address these issues, it is essential for the bank to strengthen its collection efforts, review and potentially revise its credit policies, and enhance risk management practices. Continuous monitoring and proactive management of the loan portfolio will be vital in mitigating future risks and improving overall loan quality.

4.4 Findings on Objectives of the study

This section provides findings on the three objectives of the study. It provides the descriptive statistic from the responses in form of mean and standard deviation.

The respondents were requested to rate their opinion on credit risk management practices at Equity bank Uganda, the major credit risks associated with Equity Bank Uganda's lending practices, the identified credit risks and their impact on the bank's loan portfolio performance, the effectiveness of Equity Bank Uganda's current credit risk management measures, including strategies to avoid, accept, or mitigate risk.

4.4.1 The major credit risks associated with Equity Bank Uganda’s lending practices.

Table 4. 7: major credit risks associated with Equity Bank Uganda’s lending practices

Statement	f/%	DA	N	A	Mean	Std. Dev.
Borrower assessment fails to capture repayment capacity.	f %	20 27.8	15 20.8	37 51.4	3.72	1.42
Loan portfolio shows high exposure to risky sectors.	f %	28 38.9	5 6.9	39 54.2	3.36	1.27
Collateral enforcement lacks consistency across loan categories.	f %	22 30.6	5 6.9	45 62.5	3.58	1.50
Loan officers demonstrate limited skill in credit risk evaluation.	f %	35 48.6	0 0.0	37 51.4	3.87	1.04
Credit monitoring tools miss early signs of loan default.	f %	23 31.9	20 27.8	29 40.3	3.23	1.51
Lending practices reflect vulnerability to political shocks.	f %	13 18.1	2 2.8	57 79.2	4.33	.80
Small-scale borrowers present elevated risk of loan failure.	f %	45 62.5	12 16.7	15 20.8	2.75	1.71
Risk mitigation measures lack strength against financial disruptions.	f %	17 23.6	10 13.9	45 62.5	3.75	0.94
Interpretation; Mean; Mean of above 3.0 = Agreed, Mean Below 3.0 Disagreed and Mean =3.0 were undecided, F= frequency						

Source: Primary Data (2025).

Respondents agreed that borrower assessment at Equity Bank Uganda often fails to accurately capture repayment capacity (Mean = 3.72, SD = 1.42). This suggests a critical weakness in the bank’s credit appraisal process, which may lead to increased loan defaults. Muriithi (2017) similarly found that ineffective borrower screening was a major contributor to non-performing loans in Kenyan commercial banks. Kipyego and Kenei (2019) emphasized that inadequate borrower profiling undermines credit risk control, especially in institutions with limited access to reliable borrower data.

The results show that respondents agreed Equity Bank Uganda's loan portfolio is highly exposed to risky sectors (Mean = 3.36, SD = 1.27). Such concentration increases vulnerability to sector-specific economic shocks. Musyoki and Kadubo (2022) observed that sectoral concentration, particularly in agriculture and informal trade, heightens credit risk in East African banks. The Basel Committee on Banking Supervision (2019) recommends sectoral diversification as a key strategy for mitigating systemic credit risk.

Respondents agreed that collateral enforcement at Equity Bank Uganda lacks consistency across loan categories (Mean = 3.58, SD = 1.50). This inconsistency may weaken the bank's ability to recover loans and enforce credit agreements. Mwangi (2014) reported similar findings in microfinance institutions, where inconsistent collateral practices led to increased default rates. Greuning and Bratanovic (2019) argue that effective collateral management is essential for reducing credit losses and maintaining borrower discipline.

A strong agreement was observed regarding the limited skills of loan officers in evaluating credit risk (Mean = 3.87, SD = 1.04). This points to a need for enhanced training and capacity building within the bank's credit department. Waweru and Kalani (2019) highlighted that poor staff training contributes to weak credit decisions in East African banks. Olweny and Shiphoh (2021) further emphasized the importance of continuous professional development to improve credit risk assessment and decision-making.

Respondents agreed that the bank's credit monitoring tools are insufficient for detecting early signs of loan default (Mean = 3.23, SD = 1.51). This gap in monitoring can delay intervention and exacerbate loan losses. Kithinji (2020) found that weak monitoring systems in Kenyan banks led to delayed responses to deteriorating loan conditions. Saunders and Allen (2010) stress that timely and proactive monitoring is a cornerstone of effective credit risk management.

The highest level of agreement was recorded for the statement that Equity Bank Uganda's lending practices are vulnerable to political shocks (Mean = 4.33, SD = 0.80). This reflects the broader challenge of political instability affecting financial institutions in developing economies. Brownbridge and Harvey (2018) identified political interference as a major risk factor in African banking systems. Beck, Demirgüç-Kunt,

and Levine (2005) also noted that political uncertainty can distort lending practices and undermine financial sector stability.

Unlike other risks, respondents disagreed with the notion that small-scale borrowers inherently present elevated risk of loan failure (Mean = 2.75, SD = 1.71). This suggests that Equity Bank Uganda may have effective mechanisms for managing small borrower risk. While Ledgerwood (2013) argued that small borrowers often lack financial stability and pose higher risk, Morduch (2019) countered that with proper support, small borrowers can be reliable and profitable, especially in microfinance contexts.

Respondents agreed that Equity Bank Uganda's risk mitigation measures are not robust enough to withstand financial disruptions (Mean = 3.75, SD = 0.94). This highlights a need for stronger contingency planning and stress testing frameworks. Ghosh (2017) found that banks in developing economies often lack comprehensive risk mitigation strategies. The International Monetary Fund (2020) recommends scenario analysis and dynamic risk modeling to enhance resilience and preparedness for financial shocks.

From interviews, it was disclosed that Equity bank's credit policy is robust and comprehensive, clearly defining roles and responsibilities for employees involved in credit-related processes. *“The policy emphasizes priorities such as customer data security, compliance with regulatory requirements, sanctions list scanning, fraud detection, credit acquisition, portfolio management, loan loss reserve calculation and monitoring, as well as fraud detection and treatment processes. Employees undergo training to identify and promptly report suspicious activities. Furthermore, the policy provides guidelines for assessing creditworthiness during loan acquisition, ongoing monitoring of loan portfolios, and generating detailed reports on credit performance, risk exposure, and portfolio health. These measures are crucial in upholding the bank's financial health and safeguarding the interests of its customers”.*

In another interview, the head of the credit department emphasized, *“As a credit department officer in the bank, I recognize that our institution sets rigorous standards for loan applications. Our primary objective is to ensure the financial stability of both the bank and our clients. When evaluating loan applications, we meticulously assess factors such as credit history, income stability, collateral, and debt-to-income ratios. By adhering to these stringent criteria, we protect the bank's interests while providing equitable and responsible lending opportunities to qualified applicants. Our steadfast*

commitment to maintaining these high standards is integral to the long-term success of our institution and the financial well-being of our customers."

4.4.2 The identified credit risks and their impact on the bank's loan portfolio performance

Table 4. 8: The identified credit risks and their impact on the bank's loan portfolio performance

Statement	f/%	DA	N	A	Mean	Std. Dev.
Weak borrower assessment reduces loan recovery rates.	f %	12 16.7	10 13.9	50 69.4	3.43	0.987
Exposure to risky sectors increases non-performing loans.	f %	5 6.9	27 37.5	40 55.6	3.21	1.537
Inconsistent collateral enforcement lowers portfolio stability.	f %	12 16.7	8 11.1	52 72.2	3.57	0.75
Limited credit risk skills among staff weakens loan performance.	f %	25 34.7	20 27.8	27 37.5	2.33	1.255
Poor credit monitoring leads to delayed response to defaults.	f %	35 48.6	0 0.0	37 51.4	3.12	1.006
Political shocks disrupt repayment patterns across borrower groups.	f %	32 44.4	15 20.8	25 34.7	2.17	1.352
High default rates among small-scale borrowers reduce portfolio quality.	f %	25 34.7	20 27.8	27 37.5	3.14	0.951
Weak risk mitigation increases loan losses during financial disruptions.	f %	50 69.4	12 16.7	10 13.9	2.83	0.691

Source: Primary data (2025)

Respondents disagreed with the statement that limited credit risk skills among staff weaken loan performance (Mean = 2.33; SD = 1.255). This suggests that staff at Equity Bank Uganda may be perceived as adequately skilled in managing credit risk. However, scholarly evidence points to the contrary in similar contexts. Nyutu, Kung'u, and Gakobo (2024) found that staff competence significantly influences credit recovery in deposit-taking microfinance institutions in Kenya. Their study emphasized that technical skills in credit analysis and borrower profiling are essential for maintaining portfolio quality. Likewise, Agaba, Tamwesigire, and Eton (2022) observed that gaps in staff expertise contributed to poor loan performance in Ugandan commercial banks, especially in rural branches. These findings suggest that while perceptions may vary,

institutional investment in staff training remains critical for sustainable credit risk management.

Respondents agreed that poor credit monitoring leads to delayed responses to loan defaults (Mean = 3.12; SD = 1.006). This reflects a common challenge in many financial institutions where weak oversight mechanisms hinder early intervention. Mwangi and Muturi (2016) demonstrated that ineffective monitoring systems in Kenyan banks resulted in increased non-performing loans due to delayed detection of repayment issues. Similarly, Tran et al. (2024) found that structured monitoring activities in Vietnam's group-based lending programs significantly reduced loan defaults. Their study highlighted the importance of delegated oversight and borrower engagement in maintaining portfolio health. These findings affirm that robust credit monitoring is essential for timely risk mitigation and improved loan performance.

Respondents disagreed with the statement that political shocks disrupt repayment patterns across borrower groups (Mean = 2.17; SD = 1.352). This suggests that political instability may not be perceived as a major threat to loan performance at Equity Bank Uganda. However, Breza (2012) provided compelling evidence from the Krishna Default Crisis in India, where political interference led to widespread loan defaults. The study revealed that borrower behavior is highly sensitive to political signals, especially in microfinance contexts where clients may expect loan forgiveness during election cycles. While the Ugandan banking sector may be more insulated, these findings caution against underestimating the influence of political dynamics on credit risk.

Respondents agreed that high default rates among small-scale borrowers reduce portfolio quality (Mean = 3.14; SD = 0.951). This reflects a well-documented risk in microfinance and SME lending. Muindi and Ambrose (2023) found that microfinance institutions in Kenya faced significant portfolio deterioration due to defaults among small borrowers, often linked to unstable income and limited financial literacy. Kar and Swain (2018) further observed that increased competition and multiple borrowing among small clients led to repayment crises, especially in saturated markets. These studies underscore the need for tailored credit products, borrower education, and group lending models to manage risk in this segment.

Respondents were undecided but leaned toward agreement that weak risk mitigation increases loan losses during financial disruptions (Mean = 2.83; SD = 0.691). This suggests uncertainty about the effectiveness of current risk management frameworks at Equity Bank Uganda. Bao et al. (2023) examined P2P lending platforms and found that inadequate risk mitigation strategies—such as poor borrower screening and lack of contingency planning—led to platform failures and investor losses. Mazumdar and Mara (2024) also showed that institutions with proactive risk mitigation strategies, including diversification and stress testing, experienced fewer financial losses during economic shocks. These findings highlight the importance of strengthening institutional resilience through dynamic and context-specific risk management tools.

From the interviews, the bank manager revealed that *“There seems to be a perception gap regarding the training of our credit staff in risk control measures. We're committed to investing in continuous training and development to equip our team with the skills needed to effectively manage credit risks.”*

In a similar interview a male head of department said *“Regarding the involvement of credit committees in high-exposure cases at underwriting, we recognize the importance of collective decision-making. We'll explore ways to enhance collaboration between underwriters and credit committees for better risk assessment.”*

Another female manager put it that *“It appears there's a perception gap regarding underwriters having different authorities based on risk grades and exposure limits. We value this feedback and will review our practices to ensure clarity and consistency across all applications.”*

4.4.3 The effectiveness of Equity Bank Uganda’s current credit risk management measures, including strategies to avoid, accept, or mitigate risk

Table 4. 9: The effectiveness of Equity Bank Uganda’s current credit risk management measures, including strategies to avoid, accept, or mitigate risk

Statements	f/%	DA	N	A	Mean	Std. Dev.
Credit risk policies reflect clear procedures for risk avoidance.	f %	50 69.4	2 2.8	20 27.8	2.71	1.45
Risk acceptance decisions follow structured guidelines.	f %	20 27.8	35 48.6	17 23.6	2.55	1.32
Mitigation strategies reduce exposure to loan default.	f %	23 31.9	19 26.4	30 41.7	3.12	1.25
Staff training improves implementation of risk controls.	f %	25 34.7	20 27.8	27 37.5	2.14	0.89
Internal audits identify weaknesses in credit risk practices.	f %	26 36.1	26 36.1	20 27.8	2.36	1.24
Risk assessment tools support accurate borrower profiling.	f %	42 58.3	10 13.9	20 27.8	2.12	1.055
Portfolio reviews enhance early detection of credit risk.	f %	50 69.4	0 0.0	22 30.6	2.78	1.352
Recovery procedures strengthen loan performance outcomes.	f %	12 16.7	30 41.7	32 44.4	3.67	1.352

Interpretation; Mean; Mean of above 3.0 = Agreed, Mean Below 3.0 Disagreed and Mean =3.0 were undecided, F= frequency

Source Primary data (2025).

Respondents disagreed with the statement that Equity Bank Uganda’s credit risk policies reflect clear procedures for risk avoidance (Mean = 2.71; SD = 1.45). This suggests that the bank’s frameworks for identifying and avoiding risky lending are either unclear or inconsistently applied. Tutino et al. (2013) found that during the Italian financial crisis, banks that lacked structured risk avoidance policies experienced significant deterioration in credit quality, particularly when extending credit to distressed businesses. Their findings underscore the importance of clear procedural guidelines in minimizing exposure to default-prone borrowers.

With a mean score of 2.55 (SD = 1.32), respondents expressed disagreement regarding the presence of structured guidelines for risk acceptance. This indicates that decisions to accept credit risk may be made without consistent criteria or oversight. Benvenuti et al. (2022) emphasized that in times of economic distress, such as during the COVID-19 pandemic, banks that lacked formalized risk acceptance protocols saw a rise in

informal lending and deteriorating credit performance. Their study advocates for stringent and regularly updated credit risk policies to guide lending decisions.

Respondents were undecided but leaned toward agreement (Mean = 3.12; SD = 1.25) that mitigation strategies at Equity Bank Uganda help reduce exposure to loan default. Nigmonov and Shams (2021) found that during the pandemic, financial institutions with robust risk mitigation frameworks—such as diversified portfolios and dynamic borrower assessments—were better able to absorb shocks and maintain loan performance. Their research highlights the need for adaptive and data-driven mitigation strategies to manage evolving credit risks.

Respondents disagreed with the statement that staff training improves the implementation of risk controls (Mean = 2.14; SD = 0.89). This reflects a perceived gap in capacity-building efforts within the bank. Nosal (2017) emphasized that early-warning systems and proactive credit monitoring require well-trained personnel capable of interpreting risk signals and responding effectively. Without continuous professional development, banks risk underutilizing their risk management tools and exposing themselves to preventable losses.

With a mean score of 2.36 (SD = 1.24), respondents showed skepticism about the effectiveness of internal audits in identifying weaknesses in credit risk practices. This suggests that audit mechanisms may not be sufficiently rigorous or timely. Koulouridi et al. (2020) argued that post-pandemic credit risk environments demand real-time data analytics and enhanced internal oversight to detect vulnerabilities early. Their study recommends integrating digital tools into audit processes to improve responsiveness and accuracy.

Respondents disagreed (Mean = 2.12; SD = 1.055) that the bank's risk assessment tools effectively support accurate borrower profiling. This points to limitations in the bank's ability to evaluate borrower creditworthiness. Tutino et al. (2013) observed that inadequate borrower profiling was a key factor in rising non-performing loans during Italy's financial crisis. They advocate for comprehensive borrower assessment models that incorporate both financial and behavioral data.

Respondents were undecided (Mean = 2.78; SD = 1.352) about whether portfolio reviews enhance early detection of credit risk. This indicates that while reviews may be conducted, their effectiveness in identifying emerging risks is questionable. Nosal

(2017) emphasized that portfolio-level monitoring, when combined with predictive analytics, can significantly improve early detection of credit deterioration. He recommends scenario-based portfolio reviews to anticipate and mitigate future risks.

The findings are in line with align with Nosal's (2017) who emphasised on monitoring credit deterioration in loan and investment portfolios, advocating for early-warning systems to mitigate credit losses and capital requirements by identifying potential default events proactively. Similarly, Rojas (2021) highlights defaults and credit deterioration as significant concerns for investors, anticipating that amendment and covenant relief activities will be prevalent in capital structure renegotiations. The study found that the economic conditions, including high inflation rates and Covid-19 lockdowns, have indeed contributed to credit quality deterioration. The results are consistent with Zeng et al. (2020) who observed a sharp increase in expected losses for public and private companies in the United States due to the pandemic. According to Ondragon (2022) the mortgage market, credit quality remained high, but lending standards tightened in early 2020. While low interest rates increased refinancing demand, credit supply contracted sharply during the pandemic, especially for jumbo mortgages. Koulouridi et al. (2020) emphasized the importance of managing and monitoring credit risk after the COVID-19 pandemic.

From the interviews bank staff said *“One of the challenges we've been facing is a noticeable increase in the Portfolio at Risk for loans <90 days. Despite our efforts, the numbers have been consistently higher than what we consider acceptable. This indicates a need for more proactive measures in credit risk management to prevent further deterioration.”*

In a similar interview a manager said *“Over the past few years, we've observed a concerning trend of rising bad debts and loans being written off. It's clear that our initial assessments may not have been stringent enough, and we need to reassess our criteria for approving loans to mitigate these losses.”*

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter comprises the summary of the findings, conclusion, and recommendations. Once data is presented in chapter four and interpreted, there is a need to summarize the findings in relation to the objectives, discussed and thereafter make conclusions and recommendations.

5.1 Summary of Findings

This study investigated the credit risk management practices, credit risk assessment and control and loan portfolio performance and improvement strategies

5.1.1 The major credit risks associated with Equity Bank Uganda's lending practices.

The findings from Table 4.7 highlight several major credit risks associated with Equity Bank Uganda's lending practices. Respondents indicated that borrower assessment processes are inadequate in evaluating repayment capacity, and that the bank's loan portfolio is overly exposed to high-risk sectors. Collateral enforcement was perceived as inconsistent across loan categories, which may weaken recovery efforts. Concerns were also raised about the limited skills of loan officers in conducting effective credit risk evaluations, and the inability of current monitoring tools to detect early signs of loan default. Lending practices were viewed as particularly vulnerable to political shocks, reflecting broader systemic risks. While small-scale borrowers were not widely seen as a primary source of loan failure, respondents emphasized that existing risk mitigation strategies are insufficient to protect the bank during financial disruptions. These insights point to critical gaps in credit risk management that could compromise loan performance and institutional stability.

5.1.2 The identified credit risks and their impact on the bank's loan portfolio performance.

The results reveal that weak borrower assessment is widely perceived to hinder loan recovery, indicating a need for more rigorous credit evaluation processes. Respondents also agreed that lending to high-risk sectors contributes to increased non-performing loans, suggesting that sectoral diversification could improve portfolio health. Inconsistent enforcement of collateral was seen as a factor that undermines portfolio stability, highlighting the importance of standardized recovery procedures. However, staff competence in credit risk evaluation was viewed with skepticism, pointing to

potential gaps in training and expertise. Credit monitoring practices were considered insufficient, with delayed responses to defaults posing a threat to loan performance. Interestingly, political shocks were not broadly seen as disruptive to repayment patterns, though this may vary by context. Respondents were divided on whether small-scale borrowers significantly impact portfolio quality, reflecting mixed experiences across borrower segments. Lastly, there was uncertainty about the strength of current risk mitigation strategies during financial disruptions, indicating a need for more resilient and adaptive frameworks.

5.1.3 The effectiveness of Equity Bank Uganda's current credit risk management measures, including strategies to avoid, accept, or mitigate risk

The findings from Table 4.11 reveal mixed perceptions regarding the effectiveness of Equity Bank Uganda's credit risk management strategies. Respondents expressed skepticism about the clarity of procedures for risk avoidance and the structure of risk acceptance decisions, suggesting that foundational policies may lack consistency or transparency. While some respondents acknowledged that mitigation strategies help reduce exposure to loan default, others questioned the adequacy of staff training in implementing risk controls, indicating a potential gap in capacity building. Internal audits were not widely seen as effective in identifying weaknesses in credit risk practices, and risk assessment tools were perceived as insufficient for accurate borrower profiling. Portfolio reviews received a lukewarm response, with uncertainty about their role in early detection of credit risk. However, recovery procedures were viewed more positively, with many respondents agreeing that they contribute to improved loan performance outcomes. Overall, the data points to a need for strengthening institutional frameworks, enhancing staff competencies, and refining monitoring tools to ensure more effective credit risk management.

5.2 Contribution of the Study

The study contributes to the existing literature on bank credit policies and their impact on credit quality across commercial banks. It provides empirical evidence on the comprehensiveness of the bank's credit policy in alignment with business strategy, identifies causes of credit quality deterioration, and proposes strategies to enhance asset quality at Equity bank. Additionally, the study advances credit risk theory and the KMV credit monitor model within commercial banks' credit policies, suggesting practical steps for improving asset quality in financial institutions.

5.3 Conclusions

The study identified several major credit risks inherent in Equity Bank Uganda's lending practices. Chief among these were inadequate borrower assessment procedures, overexposure to high-risk sectors, and inconsistent collateral enforcement, all of which pose significant threats to loan recovery and institutional stability. The limited technical capacity of loan officers and the ineffectiveness of current monitoring tools further exacerbate these risks. Additionally, while political shocks were flagged as a vulnerability, small-scale borrowers were not broadly viewed as a primary source of loan failure. These findings underscore the need for more robust risk identification mechanisms and a strategic reevaluation of lending practices to safeguard the bank's financial health.

The impact of these credit risks on loan portfolio performance was evident in the prevalence of non-performing loans and weak recovery outcomes. Poor borrower profiling and sectoral concentration were seen as key contributors to portfolio instability. Inconsistent collateral enforcement and delayed responses to defaults weakened the bank's ability to manage risk proactively. Staff competence in credit evaluation emerged as a critical concern, suggesting that capacity-building initiatives are essential. Although political shocks were not universally seen as disruptive, the mixed views on small-scale borrowers and the perceived fragility of current mitigation strategies point to the need for more adaptive and resilient credit risk frameworks.

Finally, the effectiveness of Equity Bank Uganda's current credit risk management measures was found to be uneven. While recovery procedures were generally viewed as beneficial, other strategies such as risk avoidance policies, acceptance guidelines, and mitigation tools were met with skepticism. The lack of clarity in procedural frameworks, limited staff training, and underutilized internal audits suggest that institutional reforms are necessary. Enhancing the precision of borrower profiling, strengthening portfolio reviews, and investing in staff development will be crucial for improving the bank's overall risk posture. These conclusions highlight the importance of a comprehensive and integrated approach to credit risk management that aligns operational practices with strategic goals.

5.4 Recommendations

The study recommends that Equity Bank prioritize enhancing asset quality. As observed under risk monitoring, low mean value was opted for loan monitoring which

affects the asset quality. Equity bank Uganda should focus intensely on improving asset quality by vigilantly monitoring loans throughout their lifecycle. This proactive approach enables prompt identification of any deviations from approval conditions, facilitating timely corrective measures. Effective loan monitoring encompasses credit risk assessment, loan classification, sufficient provisioning, and collateral management, all essential for maintaining a robust loan portfolio and ensuring loans perform as expected.

Furthermore, the study recommends that banks customize loans to the specific needs of individual businesses in order to reduce default risks. The findings indicate that some customers obtain loans which do not fit their businesses. Understanding industry developments, market conditions, and borrowers' financial health is critical in this context. Banks can assess their clients' ability to repay by evaluating their financial records and structuring loans appropriately. Customizing loans matches financing with borrowers' particular business models, lowering the risk of default.

Additionally, the study recommends that Equity bank Uganda promptly issue breach letters to borrowers who violate loan conditions. Addressing breaches swiftly is vital to uphold loan covenants and maintain transparent communication with borrowers. Clear communication reinforces borrowers' understanding of their obligations, which helps prevent future breaches and allows for timely corrective actions.

Moreover, the study advocates for integrating digital solutions to streamline loan management processes. As observed from the results, customers find it hard to clear their loan obligations due to a lack of payment options. Digital tools such as automated reminders, alerts, and real-time monitoring systems enhance communication efficiency with borrowers. Investing in a robust digital infrastructure enables banks to detect and address loan performance deviations promptly, thereby improving overall loan management effectiveness.

Lastly, the study underscores the importance of considering borrower-specific factors in loan management. Recognizing each borrower's unique circumstances, including their business model, industry challenges, and external influences, allows banks to tailor their approach accordingly. This holistic approach to risk management fosters a positive lender-borrower relationship and enhances overall risk mitigation strategies.

5.5 Limitations of the study

Some staff from bank were hesitant to provide information because some believed it would jeopardize their relationships with the bank and regulators, while others saw it as sensitive information about the company and thus, they were not willing to share the information. The researcher had to obtain a letter of introduction from the college and also trying to explain the relevance of the study to the individuals

The researcher encountered final difficulties in distributing questionnaires and conducting follow-up, owing to the high cost of tying and printing. As a result, the field study necessitated advance planning and saving. It was difficult to obtain the necessary funds for the expenses from parents and relatives.

The inadequate time factor, this researcher had to create time outside the academic schedule to be in position to complete the research within the least time possible

The study was cross-sectional in nature, may be the longitudinal study could have given different results.

5.6 Areas for further study

This study aimed to evaluate the effectiveness of Credit Management Practices at Equity Bank Uganda. The findings shed light on credit risk management practices and their impact on loan performance. Future research should expand this study to include other commercial banks to achieve a larger sample size and a more comprehensive view of the variables involved. Additionally, similar studies should be conducted in other financial institutions, such as micro-credit organizations. While this study utilized a cross-sectional approach, future research could adopt a longitudinal perspective to assess long-term trends. Lastly, incorporating corporate governance as a mediator between credit risk management and loan performance could provide valuable insights into how administrative practices contribute to enhancing credit risk management within banks.

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APPENDICES

Appendix 1: Questionnaire for Equity bank Staff

Dear Respondent,

My name is KANEMPE GRACE, and I am a student at Makerere University currently undertaking a study titled evaluation of the credit management practices at equity bank Uganda as part of the requirements for my Master of Business Administration degree. You have been chosen to participate in this study because your insights are highly valued. I kindly request that you take a few moments to respond to the questions or statements as openly, honestly, and independently as possible. Please rest assured that your responses will be kept confidential and anonymous, as this research is conducted solely for academic purposes.

Thank you very much for your time.

SECTION A

Please answer all questions and indicate your responses by ticking (✓) in the appropriate box as requested.

A1 Gender

Male		1
Female		2

A2 For How long have u been working with Equity Bank?

Less than a year		1
Between 1 and 5 years		2
Between 5 and 10 years		3
More than 10 years		4

A3 What's your age bracket

18-29		1
30-39		2
40-49		3
50-59		4
60 years and above		5

A4 What is your highest Level of education

Ordinary level certificate		1
Advanced level certificate		2
National certificate or Diploma		3
Bachelor's degree		4
Master's degree		5
Other, please specify below:		6

A5 Department of the respondent

Credit		1
Finance		2
Risk management		3
Legal		4
Others specify		5

Section B: Statements relating the major credit risks associated with Equity Bank Uganda's lending practices.

Please indicate the extent to which you agree with the statements where (1 = Strongly disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; and 5 = Strongly agree).

	<i>Statements relating to the major credit risks associated with Equity Bank Uganda's lending practices.</i>	1	2	3	4	5
B1	Borrower assessment fails to capture repayment capacity.					
B2	Loan portfolio shows high exposure to risky sectors.					
B3	Collateral enforcement lacks consistency across loan categories.					
B4	Loan officers demonstrate limited skill in credit risk evaluation.					
B5	Credit monitoring tools miss early signs of loan default.					
B6	Lending practices reflect vulnerability to political shocks.					
B7	Small-scale borrowers present elevated risk of loan failure.					
B8	Risk mitigation measures lack strength against financial disruptions.					

Section C: Statements relating the identified credit risks and their impact on the bank's loan portfolio performance

Please indicate the extent to which you agree with the statements where (1 = Strongly disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; and 5 = Strongly agree).

	<i>Statements relating to the identified credit risks and their impact on the bank's loan portfolio performance</i>	1	2	3	4	5
C1	Weak borrower assessment reduces loan recovery rates.					
C2	Exposure to risky sectors increases non-performing loans.					

C3	Inconsistent collateral enforcement lowers portfolio stability.					
C4	Limited credit risk skills among staff weakens loan performance.					
C5	Poor credit monitoring leads to delayed response to defaults.					
C6	Political shocks disrupt repayment patterns across borrower groups.					
C7	High default rates among small-scale borrowers reduce portfolio quality.					
C8	Weak risk mitigation increases loan losses during financial disruptions.					

Section C: Statements relating the effectiveness of Equity Bank Uganda’s current credit risk management measures, including strategies to avoid, accept, or mitigate risk.

Please indicate the extent to which you agree with the statements where (1 = Strongly disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; and 5 = Strongly agree).

	<i>Statements relating to the effectiveness of Equity Bank Uganda’s current credit risk management measures, including strategies to avoid, accept, or mitigate risk</i>	1	2	3	4	5
D1	Credit risk policies reflect clear procedures for risk avoidance.					
D2	Risk acceptance decisions follow structured guidelines.					
D3	Mitigation strategies reduce exposure to loan default.					
D4	Staff training improves implementation of risk controls.					
D5	Internal audits identify weaknesses in credit risk practices.					
D6	Risk assessment tools support accurate borrower profiling.					
D7	Portfolio reviews enhance early detection of credit risk.					
D8	Recovery procedures strengthen loan performance outcomes.					