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COLLEGE OF BUSINESS AND MANAGEMENT SCIENCE

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ASSESSMENT OF CREDIT RISK MANAGEMENT PRACTICES AT DFCU BANK UGANDA LIMITED

BY

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF MAKERERE UNIVERSITY

OCTOBER, 2026

DECLARATION

I **Jamira Tumushime** hereby declare that this research report is my original work and has never been presented or submitted to any institution of higher learning for any award.

Signed: Tumushime..... Date: 26th/10/2026.....

Jamira Tumushime

APPROVAL

This research report titled ***Assessment of credit Risk Management practices at DFCU bank Uganda Limited*** was compiled under my guidance and supervision is now complete and ready for submission for examination.

Signed: .....

Date: 26/10/2026

Dr. Betty Tuhaise

DEDICATION

I dedicate this report to the Almighty God. Surely, if it wasn't for God's grace and mercy, I would not have made it this far.

To my family and friends, thank you very much for all the love and support.

Special thanks to Mr Odwol M,Pamela M, Busingye s, Dr.sylvia N, Emmanuel m, Godfrey m, my children, my colleagues and coursemates with all the professors and doctors especially my supervisor (Dr.Betty Tuhaise) who tirelessly guided and supervised me through this research report to completion.

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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
UNSDG	United Nations' Sustainable Development Goals

ABSTRACT

The purpose of this study was to investigate credit risk management practices at DFCU Bank Uganda Limited, with a focus on how these practices influence loan portfolio quality and overall financial performance. The study was guided by three specific objectives: to examine the different credit risk practices used by DFCU Bank Uganda Limited, to determine the challenges faced in managing credit risk, and to suggest ways of improving credit risk management at DFCU bank. A cross-sectional and descriptive research design was adopted, employing a mixed-methods approach. Quantitative data was collected through surveys administered to staff respondents, while qualitative insights were obtained from interviews with key informants. Quantitative data was analyzed using the STATA (VERSION 16), while qualitative data was processed using Atlas.ti. The findings revealed that DFCU Bank has a clearly documented credit risk policy, enforces collateral requirements, conducts borrower assessments, and applies monitoring and internal controls. These practices contribute to financial sustainability. However, weaknesses were identified in proactive risk identification, inadequate documentation, ineffective recovery procedures, and weak monitoring systems, which contribute to loan defaults and non-performing loans. External factors such as economic downturns and regulatory challenges were found to be less significant compared to internal inefficiencies. The study recommends strengthening loan monitoring and recovery processes, customizing loan products to suit specific businesses, issuing timely breach letters to defaulting customers, and integrating digital solutions to enhance efficiency and real-time monitoring.

CHAPTER ONE:

INTRODUCTION

1.1 Introduction

This study explores the effectiveness of credit risk management practices at DFCU Bank Uganda Limited, focusing on how the bank manages credit issuance, risk assessment, and recovery processes in a rapidly evolving financial environment. As credit remains a vital driver of economic growth and banking profitability, the ability of DFCU to implement sound credit policies directly influences its financial performance and customer trust. With increasing demand for loans and heightened regulatory oversight from Bank of Uganda, this research aims to evaluate whether DFCU's credit strategies are adequately structured to minimize default risk, enhance loan recovery, and support sustainable lending. The findings offered insights into best practices and potential areas for improvement within Uganda's banking sector. This chapter presented 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 (*B*ank 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, DFCU Bank Limited, a renowned financial institution, employs internal monitoring systems to evaluate the quality of its loan portfolio. By categorizing customers into different rating classes, the bank assesses borrowers' ability to repay loans, adjusts lending limits, and requests appropriate collateral (Anon, 2023). Notably, DFCU Bank's experience aligns with that of other commercial banks in Uganda, all of which comply with the regulations established by the Central Bank of Uganda. These banks, including DFCU Bank, face common social, economic, and administrative challenges that impact their customers´ capacity to meet loan requirements as directed by the Bank of Uganda (DFCU Bank Limited, 2021).

1.3 Problem Statement

Recently, DFCU Bank implemented a three-line defense model to address non-performing loans, emphasizing training, capacity building, and strengthening controls within the lending process (DFCU, 2023). Additionally, the bank diversified its portfolio, revamped risk assessment processes, and enhanced automation to improve loan management and asset quality (DFCU Bank, 2023). Despite these measures, the institution continues to struggle with rising non-performing loans and an increasing credit loss ratio. According to DFCU Bank reports (2018–2023), the Non-Performing Loan (NPL) ratio increased from 4% in 2018 to 9.2% in 2023—surpassing the industry average of 5.76% in 2023 (DFCU Bank Uganda, 2022), If left unchecked, the situation could adversely affect the bank's stability (Jefferis ***et al***., 2020; Obanda, 2022).

Table 1. 1: showing NPL for DFCU for the last 6 years

Year	**2024**	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**
NPL	10.2%	9.20%	7.60%	16.00%	6.20%	6.00%	4.00%

Source: **DFCU bank annual reports 2018-2024.**

In light of these challenges, the objective of this study is to conduct a detailed analysis of the credit risk management practices at DFCU Bank.

1.4 Objective of the Study

The objective of the study was to investigate credit risk management practices at DFCU Bank Uganda Limited

1.4.1 Specific Objectives of the Study

i. To examine the different credit risk management practices used by DFCU Bank Uganda Limited
ii. To determine credit risk management challenges at DFCU Bank Uganda Limited
iii. To suggest ways of improving credit risk management at DFCU Bank Uganda Limited.

1.5 Research questions of the study

This research was guided by the following questions:

1. What are the different credit risk management practices at DFCU Bank Uganda Limited?
2. What are the credit risk management challenges faced by DFCU Bank Uganda Limited?
3. What strategies are there for improving credit risk management at DFCU Bank Uganda Limited?

1.6 Significance of the study

The study on credit risk management at DFCU Bank holds significant value for various stakeholders. DFCU management and executives will gain insights into the effectiveness of current credit risk management practices, enabling them to refine strategies for long-term financial sustainability. Bank employees, particularly those in credit risk and relationship management, will benefit from improved training and credit assessment techniques, leading to enhanced job performance. Regulatory authorities, such as Bank of Uganda, will use the study's findings to ensure compliance with financial regulations and strengthen banking sector oversight. Customers and borrowers will experience more efficient loan processes, better lending terms, and reduced risks of financial distress. Lastly, researchers will find valuable data to support academic studies

on credit risk management in emerging markets, contributing to best practices and policy development in the banking industry.

1.7 Scope of the study

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

1.7.1 Content scope

The content scope of the study was limited to credit risk management practices at DFCU Bank Uganda Limited, focusing on credit risk management challenges at the institution and suggesting ways of improving credit risk management at DFCU Bank Uganda Limited.

1.7.2 Geographical scope

The study was conducted at DFCU bank Head Office, located on the 2nd Floor of DFCU Tower, 7 Kafu Road, Nakasero, Kampala, Uganda. This location served as the central hub for the bank's operations, providing access to key departments directly involved in credit risk management and lending practices. DFCU bank Head Office was selected as the study site because of its central role in overseeing and implementing the bank's credit risk management framework and lending procedures.

1.7.3 Time scope

The study focused on DFCU Bank Uganda's main office in Kampala District, examining credit policies and practices from 2018 to 2023. This period was selected because it marked a significant rise in non-performing loans across the banking sector, making it critical for assessing the effectiveness of credit risk management practices. The research was carried out over six months,

from March to July 2026, allowing sufficient time for data collection, analysis, and validation of findings.

1.8 Operational Definitions

Credit policy- The term "credit policy" refers to the various guidelines developed by a company's management to inform choices about credit extensions, receivables collection from clients or customers, monitoring, and regulating of overdue

Credit policy procedure- are the steps that a business follows to grant credit to its customers and collect payments from them

Credit risk standard- is an established approach for measuring credit risk under which banks use ratings from external credit rating agencies to assign risk weights to different types of exposures

Loan Portfolio Quality refers to the general status of the loans in terms of loans paid in relation to the total principal outstanding expressed as a percentage

Credit Risk Management, refers to the strategies, procedures, and controls that a company uses to ensure efficient client payment collection and so lower the risk of non-payment.

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 and loan performance.

2.1 Key Concepts of the study

Understanding the key concepts of credit risk, non-performing loans, and portfolio performance is essential for evaluating the financial sustainability of banks and lending institutions. These concepts provide the foundation for analyzing how institutions manage lending risks, maintain asset quality, and safeguard profitability in dynamic economic environments.

2.1.1 Credit Risk Practices

Credit risk management practices, as highlighted by Bülbül et al. (2019), encompass strategies for mitigating risk, enforcing strong internal controls, fostering a risk-conscious environment, and establishing clear bank policies on credit issuance. Essential components of credit risk management include identifying, assessing, monitoring, and controlling risks (Hopkin, 2018). For long-term sustainability, banks must integrate effective credit risk management within their broader risk framework (Anvarovich, 2022).

A Credit Risk Policy is a structured set of guidelines that outlines an organization's approach to managing credit risks. It is formally documented and approved by internal governing bodies. This policy conveys the management and board's tolerance for credit exposure while specifying acceptable strategies for risk mitigation and control.

As modern businesses increasingly recognize the importance of credit risk management, they adopt systematic approaches to identifying, analyzing, assessing, addressing, and tracking risks (Haneef et al., 2012). Kliestik and Cug (2015) define credit risk as the probability of financial institutions suffering losses due to borrowers failing to meet contractual obligations. Given that credit risk constitutes a major part of operational losses (Kliestik and Cug, 2015), Savings and Loans institutions remain highly vulnerable (Spuchaková and Cug, 2014).

Research by Nasieku (2019) on non-performing loans (NPLs) within DFCU Bank found that economic conditions significantly influence NPL occurrences. The study recommends banks implement sound risk management practices to curb NPL-related challenges. Similarly, Jerotich et al. (2019) examined the impact of NPLs on Kenyan commercial banks, using correlation analysis to assess variables like GDP, inflation, and interest rate spreads. The study, based on secondary data from 2000–2012, showed that interest rates affected bank performance, whereas credit volume and bank size had no significant impact (Martha, 2017). These findings suggest the need for further investigation into the factors driving non-performing loans at KCB Bank Kenya Limited.

The first step in effective risk management is risk identification. Bank executives must thoroughly understand the inherent risks within their operations, including threats from shareholders, customers, and regulatory bodies (Mogga et al., 2018). The approach to risk identification depends on factors such as cultural norms, industry practices, and compliance standards. Boards of directors play a critical role in reviewing risk management strategies and policies.

Shu (2014) asserts that a comprehensive risk management strategy should define key factors such as risk tolerance and profitability levels. Risk identification processes should include branch

inspections and financial statement reviews. Standard risk management techniques involve setting guidelines, evaluating customer creditworthiness, assigning risk ratings, and securing collateral.

When borrowers default on loans, banks must assess the severity of the risk and determine appropriate responses. Bashabe, Kalu, and Amu (2017) describe credit risk management as the process of minimizing and controlling borrower defaults through structured practices. Risk mitigation measures can include third-party involvement, reduce the impact of risks, or purchasing insurance tailored to specific financial uncertainties (Regassa, 2015).

2.1.2 Non-Performing Loans

Non-performing loans (NPLs) serve as a key indicator of the financial system's health, influencing bank profitability. An NPL refers to any loan or financial obligation where interest and principal payments have been overdue for more than 90 days, where over 90 days' worth of interest has been refinanced, capitalized, or postponed through an agreement, or where payments are less than 90 days overdue but are no longer expected (IMF, 2009). Inadequate credit risk management and unfavorable external factors contribute to NPL occurrences. Inflation, deregulation, and unique market conditions can lead to poor lending decisions, ultimately increasing NPLs. Many studies on NPLs focus on economies facing financial downturns (IMF, 2001). Ongoing financial crises highlight the rising risk of insolvency and system failure linked to increasing NPL amounts. However, markets with high NPLs must diversify risk by maintaining portfolios that contain both non-performing and performing loans (Ernst and Young, 2006).

Effective credit risk management demonstrates that lower NPL ratios correlate with reduced financial risk and lower deposit rates. Over time, higher deposit rates lead to a larger deposit base that finances higher-risk loans, thus increasing the likelihood of NPLs. Proper allocation and risk management of funds play a crucial role in mitigating NPL amounts. Since NPLs represent a

probable loss, banks must account for them in their financial statements. Increased NPL amounts require larger provisions, which ultimately diminish bank profitability.

In Kenya, commercial banks reported an NPL rate of 5.3% of total loans, amounting to Ksh1.45 trillion by March 2013, up from 4.4% in 2012. Gross NPLs rose from Ksh77.3 billion in June 2013 to Ksh79.7 billion by September 2013, reflecting a 3.1% increase (Onang'o, 2017). Studies indicate that internal bank factors, such as weak credit analysis and poor fund diversification, significantly contribute to NPL growth. However, research by Waweru and Kalani (2018) suggests that the national economic downturn had a more direct impact, causing business depression and NPL increases. These findings align with the moral hazard concept from asymmetric information theory, where debt contracts require borrowers to repay lenders a fixed amount while retaining profits above this threshold.

Gjini (2021) examined NPLs across 75 countries, noting that global loan portfolios remained stable until the 2007–2008 financial crisis, after which banking asset quality declined due to the recession. However, the deterioration varied by country. The study found no direct link between share prices and NPLs but suggested a correlation between share prices and housing market trends. A decline in housing collateral value may negatively affect consumer loan quality.

Macharia (2012) explored the relationship between NPL levels and bank financial performance in Kenya, finding an inverse connection between NPLs and return on assets (ROA). Muasya (2009) similarly assessed the impact of NPLs on the banking sector, concluding that rising NPL levels reduce profitability and negatively affect projected GDP growth.

2.1.3 Portfolio Performance

The Loan Portfolio at Risk (PAR) refers to the value of loans in arrears, measured as a percentage of the total outstanding loan portfolio. It serves as a global standard for assessing portfolio quality by determining the proportion of loans that are at risk due to overdue payments. Specifically, PAR 30 represents the segment of the portfolio with payments that are more than 30 days behind schedule. Unlike commercial loans, microloans often lack sufficient collateral, making PAR rates above 5% or 10% a warning sign for financial instability in microfinance institutions (Stauffenberg, 2003). A high level of delinquency threatens the financial viability of microfinance banks. PAR rates assess the proportion of overdue loan balances compared to the total outstanding loan portfolio (Brown, 2006). According to McIntosh and Wydick (2004), credit information systems enhance risk assessment by screening loan applicants, leading to improved portfolio quality and reduced arrears.

The PAR calculation consists of two key components: the numerator and denominator, both representing outstanding loan balances. The numerator accounts for the unpaid balance of loans with overdue payments, while the denominator reflects the total unpaid balance across all loans. Although the PAR uses a similar denominator to the arrears rate, its numerator includes all amounts exposed to additional risk due to delinquency. PAR can be measured based on different degrees of lateness, with PAR 30 commonly used among banks to indicate loans where payments are overdue by more than 30 days.

2.2 Theoretical Review

Theoretical perspectives provide the foundation for understanding how credit risk, loan performance, and portfolio management are shaped within financial institutions. By applying established theories, this study gains insights into the causes of loan defaults, the appraisal of

borrowers, and the mechanisms banks use to safeguard their portfolios. Key frameworks such as asymmetric information theory and the 5 C's model guide the analysis, offering structured explanations of lending challenges and risk management practices.

2.2.1 Asymmetric Information Theory

The asymmetric information theory demonstrates that there is information asymmetry when evaluating potential bank applicants. The theory explains a situation in banking practice in which some parties to a banking transaction have more information than others (Ekumah and Essel, 2003). According to Gwala and Mashau (2023), the theory, some agents in a transaction have more information than other parties and may withhold it from the other party for his or her own benefit. In the banking industry, lenders have less information on the borrower's ability to meet their credit obligations in the future. Borrowers provide little information to lenders, limiting the lender's ability to accurately assess the borrower's creditworthiness (Binks and Ennew, 2022.) While the lender may use the borrower's credit history as evidence of financial prowess, the information always disclosed is very limited. This makes it difficult for the lender to assess the extent to which the borrower defaults or acts prudently with his loan (Wandera and Kwambai, 2013). When lenders fail to discretionally select borrowers, the same rate is charged to both the worthy and unworthy borrowers which in turn makes the bank charge worthy borrowers highly to the detriment of unworthy borrowers (Wandera and Kwambai, 2013) . Borrowers who correctly disclose their financial worth to lenders are likely to help the bank make informed credit decisions, which reduces the risks of non-performing assets (Onuko, Muganda, and Musiega, 2015).

This theory is therefore applicable in the current study since failure of banks to access full information of the client puts the bank at risk of loan default because in case the borrower fails to pay, it can be difficult for the bank to trace them, which poses a threat to the Loan Performance of

the bank (Murigi, 2018). Likewise, failure of the clients to get full access to the information regarding the loan product and the bank puts the borrower at risk of not being able to afford credit terms and conditions which also results to loan defaults hence poor loan repayment performance (Onuko, Muganda, and Musiega, 2015).

2.2.2 5 C's model.

The study will be guided by the **5 C's model.**

Mburu and Mwangi (2020) state that the introduction of the 5 C's Model for Credit served as a framework for financial institutions to develop the policies governing their credit transactions. The five C's describe the five crucial elements that commercial banks will consider when granting credit, which should enhance loan performance (Peprah, Agyei, and Oteng, 2017). This covers the applicant's personality, ability to repay, collateral used as security, capital, and the state of the economy at the time (Mburu and Mwangi, 2020). Thus, lenders can use the assessment provided by the 5 C's Model for Credit for both present and future borrowers. Character is the degree to which the borrower exhibits commitment to meeting the terms of the loan. Capacity entails the ability of the borrower to make regular payments and settle the loan obligation fully without any major constraints. Capital on the other hand describes the wealth position of the borrower measured by the capital adequacy and market standing (Bridges, 2014). Collateral acts as a security to loan issued in case of any defaults. While economic condition focuses on the outside environment which the lenders have no control over but influence the loan recovery (Mburu and Mwangi, 2020). The importance of the theory to the study is to provide a guideline through which client appraisal is undertaken by the banks to reduce the non-performing loans. Hence, client appraisal is theorized to be a crucial risk management practice which enables the banks to only lend to creditworthy customers who have the ability to easily repay the loans. Through taking into

consideration all these 5 C's Model for Credit, cases of default loan repayment will be minimized hence resulting in improvement of bank loan performance.

2.3 Empirical review

Empirical studies provide practical evidence on how credit risk management practices influence loan performance and financial stability in commercial banks. By examining experiences from institutions such as DFCU Bank Uganda and others across different contexts, this section highlights the effectiveness, challenges, and strategies of credit risk management. These insights help bridge theory with practice, offering a clearer understanding of how banks mitigate risks and sustain portfolio quality.

2.3.1 The different credit risk management practices at DFCU Bank Uganda

This section explores the approaches used by commercial banks to identify credit risk, including credit risk identification, assessment, monitoring, and control. Risk identification involves recognizing potential weaknesses and threats within an organization while raising awareness of its exposure to risks (Caruso, Gattone, Fortuna, and Di Batt, 2021).

Kozodoi (2019) applied a multi-objective method to analyze profit-driven feature selection in credit scoring for banks in the UK. His study found that credit risk identification becomes more effective when banks' objectives are explicitly defined and understood by stakeholders (Kozodoi, et al., 2019). Additionally, it was noted that unforeseen risks could be uncovered through structured brainstorming sessions where teams collaborate to pinpoint risks based on set objectives. A separate study examined the influence of audit committee characteristics on the financial performance of manufacturing firms in Nigeria, using panel multiple regression analysis. Findings indicated that credit risk identification is most impactful when applied at the executive

level with the involvement of the audit committee and the board of directors (Nyebar, 2021). However, this study was limited to manufacturing firms and did not extensively address commercial banks.

Kalu et al. (2018) found that inadequate financial analysis significantly contributes to loan defaults among microfinance institutions in Uganda, and their study revealed a strong positive correlation between effective credit risk identification and overall financial performance. Although their research focused on institutions like FINCA Uganda Ltd, Pride Microfinance Ltd, and UGAFODE Microfinance Ltd, and emphasized financial outcomes rather than loan-specific metrics, the findings remain relevant to the current study on DFCU Bank Uganda Limited. This study builds on their insights by shifting the lens toward loan performance as a direct measure of credit practice effectiveness, thereby offering a more targeted evaluation of how DFCU's credit strategies mitigate default risk and sustain lending quality in a tier one commercial banking context.

Kozodoi (2019) again employed a multi-objective approach to assess profit-driven feature selection in credit scoring for UK banks, reinforcing the idea that clear banking objectives enhance credit risk identification (Kozodoi, et al., 2019). The study also suggested that unknown risks could be surfaced through structured team brainstorming based on predefined objectives. Further research on audit committee characteristics in Nigeria revealed that strategic credit risk identification is highly effective when incorporated at the executive level, particularly with the participation of the audit committee and board of directors (Nyebar, 2021). However, this study was limited to the manufacturing sector, with little emphasis on commercial banking.

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).

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 and Njeru, 2021).

Mutua (2019) asserted that banks employing modern credit risk identification techniques can detect errors early. However, Gakure, Ngugi, and 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.

2.3.2 Credit risk management challenges at DFCU Bank

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).

Continuous monitoring and proactive credit risk management are essential to financial stability. Monitoring is primarily conducted by divisional credit risk units, which collaborate closely with business divisions that serve as the first line of defense. Rating analysis teams and portfolio managers also play a role in risk mitigation (Mayer, 2011). Credit counterparties are assigned to credit officers within specialized risk units, categorized by type such as corporate or financial institutions or economic sector. These officers possess the expertise necessary to manage credit-related transactions and associated risks (Deutsche Bank, 2011).

Kariuki (2019) emphasizes that stricter credit monitoring procedures ensure loans are granted only to financially stable borrowers. Banks must adopt stringent measures to prevent lending to individuals who lack repayment capacity. Effective monitoring systems should not only maintain financial performance but also push banks toward exceptional profitability (Kariuki, 2019).

Nyong'o (2014) suggests that effective credit risk monitoring enhances profitability and return on assets. Banks that minimize non-performing loans tend to outperform those that do not. However, the author does not clarify how these elements contribute to reducing non-performing loans. Wambugu (2009) argues that implementing credit risk monitoring can help banks improve profit margins and provide clearer financial insights.

Nguyen (2016) highlights key factors that improve loan reviews, including analyzing borrowers' financial statements, repayment ability, and compliance with loan policies and regulations. Other critical factors include assessing borrower profitability, collateral value, and ensuring thorough documentation analysis. The author recommends separating loan approval roles, ensuring loan employees are distinct from loan officers to maintain objectivity and independence in the review process. Using Uganda as an example, Kalu, Shieler, and Amu (2018) noted that frequent, timely, and detailed financial reports significantly improve credit risk monitoring when shared with

relevant stakeholders. Effective risk tracking systems must enable structured reporting and review processes to support credit risk identification and assessment.

2.3.4 Strategies for improving credit risk management at DFCU Bank Uganda

Effective credit risk management is essential for the financial health and operational sustainability of commercial banks like DFCU Bank Uganda. As Dasah (2012) notes, credit control ensures that credit is extended only to customers with the capacity to repay, which is critical in converting sales into liquid assets. While this principle is rooted in manufacturing, its relevance in banking is even more pronounced due to the complexity of credit portfolios and cyclical economic trends. In the context of DFCU, strengthening credit control mechanisms, particularly around credit quality and extension, can help reduce exposure to non-performing loans and enhance asset quality.

Ndyagyenda (2020) emphasizes that a disciplined credit control system forms the backbone of credit risk management. This aligns with DFCU's need to establish clear lending guidelines and enforce rigorous borrower assessments. Nyawera (2013) and Mbiti et al. (2018) both underscore the role of collateral in enhancing financial performance. For DFCU, this suggests that expanding collateral-based lending and improving collateral valuation processes could significantly reduce credit losses and improve loan recovery rates.

Moreover, studies by Moti et al. (2012) and Justus, Dickson, and Harrison (2016) highlight the importance of customer agreements and documentation in influencing loan performance. DFCU can benefit from this by standardizing loan documentation and ensuring that customer agreements are legally sound and enforceable. While Dexiang and Desheng (2021) caution that cultural differences may affect credit risk control approaches between Kenya and Uganda, DFCU must tailor its strategies to the local context, particularly in borrower behavior and repayment culture.

Kenton (2019) introduces the need for disaster preparedness in credit risk control. For DFCU, this means incorporating stress testing and scenario analysis into its risk management framework to anticipate and mitigate potential shocks. Kalu et al. (2018) advocate for loan portfolio diversification, which is especially relevant for DFCU given Uganda's sectoral vulnerabilities. By spreading credit exposure across high-yield sectors such as agriculture, trade, and manufacturing, DFCU can minimize concentration risk and stabilize returns.

Serwadda (2018) provides a Ugandan perspective, recommending that banks refine their credit risk strategies to uphold asset quality and profitability. His emphasis on monitoring non-performing loans, loan loss provisions, and interest earnings is particularly applicable to DFCU. To operationalize this, DFCU should invest in robust credit administration teams, conduct thorough loan evaluations, and implement continuous monitoring from disbursement to repayment. These strategies, when aligned with the bank's corporate goals and risk appetite, can significantly enhance credit risk management effectiveness.

Strengthening credit risk management at DFCU Bank requires a multifaceted approach that combines technology, policy refinement, and human expertise. As highlighted by Basel Committee on Banking Supervision (2010), the adoption of integrated risk management systems enables banks to monitor exposures in real time and respond swiftly to emerging threats. For DFCU, investing in digital credit scoring tools and automated loan tracking systems could enhance accuracy and reduce manual errors. Additionally, Fatemi and Fooladi (2006) emphasize the importance of aligning credit risk strategies with broader enterprise risk management frameworks to ensure consistency and accountability across departments. This calls for DFCU to embed credit risk controls into its strategic planning and performance metrics. Furthermore, Saunders and Allen (2002) argue that continuous staff training and capacity building are critical for effective risk

assessment and decision-making. By equipping credit officers with up-to-date knowledge on regulatory changes, market trends, and risk modeling techniques, DFCU can foster a proactive risk culture that supports sustainable lending and financial resilience

CHAPTER THREE:

RESEARCH METHODOLOGY

3.0 Introduction

This chapter explains the research methodology that was used in conducting the study. It entails describing the procedures followed during the study. The chapter entails the research design, the study population, the sampling design, the sample size, data sources, data collection instruments as well as the validity and reliability of the data collection instruments.

3.1 Research design

The study employed a descriptive cross-sectional research design with the aim of collecting data to make inferences about a population of interest at a single point in time. This design was chosen because it provided a systematic description of the study that was factual and accurate (Amin, 2005). To investigate credit risk management practices at DFCU Bank Uganda Limited, the study used a quantitative approach. The quantitative approach was particularly useful in conducting a statistical description of the study variables and in testing the major causes of credit risk challenges (Saunders et al., 2009).

3.2 Study area

The study was conducted in DFCU bank amongst different branches in Kampala, specifically focusing on the different credit risk practices used by DFCU Bank Uganda Limited, determining the credit risk management challenges faced by the institution, and suggesting ways of improving credit risk management at DFCU Bank Uganda Limited. This location was preferred because it had faced challenges with implementation of credit risk management policies, making it a suitable setting for examining the adequacy and effectiveness of its credit risk management framework.

3.3 Study population

The study considered 114 credit department staff from the 14 branches of DFCU Bank in Kampala District, which included the Main Branch, Ndeeba Branch, Taxi Park Branch, Kampala Road Branch, Ntinda Branch, Wandegeya Branch, Nakivubo Branch, Kabalagala Branch, Oasis Branch, Kololo Branch, Kawempe Branch, Nansana Branch, Luzira Branch, and Namasuba Branch (DFCU Bank, 2025). This figure represented the actual number of staff in the credit department according to the official bank document. The population was selected because these staff members possessed detailed knowledge and firsthand information about the bank's credit risk management practices, making them the most relevant respondents for the study.

3.4 Sample Size

The study used a size of 102 total staff at DFCU bank, determined by Krejcie and Morgan, 1970 table for sample size determination for a given population.

TABLE 3. 1: SAMPLE DETERMINATION TABLE

Category type	**Population**	**Sample**	**Sampling technique**
Credit Officer	90	73	Simple random sampling
Supervisors	14	14	Simple random sampling
Managers	10	10	Purposive
Heads of Department	5	5	Purposive
	114	102	

3.5 Sampling method and design

The study employed simple random sampling and purposive sampling to select the staff who participated. The simple random sampling technique was utilized because it ensured that each person in the population had an equal chance of being included in the sample (Bhardwaj, 2019). In addition, purposive sampling was applied to select managers and heads of departments who were best positioned to answer the research questions and provide insights necessary to meet the research objectives. According to Saunders, Lewis, and Thornhill (2009), purposive sampling is particularly useful when working with small, highly informative samples, as it provides a strong basis for justifying generalizations from the study findings.

3.6 Data Collection Methods and Instruments

The study employed both quantitative and qualitative data collection methods to ensure that reliable and comprehensive information was obtained. A combination of questionnaires and interviews was used, which allowed for triangulation and enhanced the validity of the findings. This approach also enabled the researcher to capture diverse perspectives from respondents, thereby providing a more holistic understanding of credit risk management practices and challenges at DFCU Bank Uganda Limited.

3.6.1 Questionnaire survey

In this study, data was collected through a questionnaire survey approach, which was delivered to the respondents. Employing questionnaires offered an effective means of gathering responses from a large sample size prior to implementing a quantitative methodology, as suggested by Saunders et al. (2009). To measure the attitudes of respondents towards the subject, the Likert scale was utilized. Respondents were asked to indicate the degree to which they agreed with the statements provided on a scale ranging from 1 to 5.

The 5-point Likert scale was used because it was comparatively easier for respondents to understand, it was simple to administer, and it provided a neutral standpoint (Darnton, 2023). Furthermore, the questionnaire underwent refinement after piloting the instrument, which helped to identify ambiguities, improve clarity, and ensure reliability and validity for the main study.

3.6.2 Interview method

The study utilized face-to-face interviews to supplement the qualitative data because an interpretative approach (qualitative in nature) was employed alongside the quantitative investigation. The interview method involved the researcher asking interviewees questions about specific topics based on a predetermined interview outline, using tools to record the conversation and capture the relative social situation (Zou et al., 2022).

Furthermore, the interview method enabled the researcher to elicit additional information and clarification while also capturing the interviewees' expressions. It allowed probing for deeper insights and facilitated revisiting issues that had been overlooked in previous instruments but were still considered important for the study (Negash, 2019; Yunus et al., 2017).

Staff in managerial positions and heads of departments at DFCU Bank were purposefully selected because they possessed detailed information and experience concerning the adequacy of the bank's credit policy.

3.7 Data types and sources

The study used only primary and secondary data. Primary data was collected through a questionnaire survey.

3.7.1 Primary source

Primary data is that data which the researcher personally collects through the use of experiments, surveys, and other research methods (Flaherty et al., 2015). Interviews were used to gather qualitative data, whereas questionnaires were used to gather quantitative data. This study obtained primary data from DFCU bank staff.

3.8 Data collection Procedure

A letter of introduction was obtained from College of Business and Management Sciences. The letter was presented to different branch managers seeking permission to conduct research within their branches. Once permission was granted, respondents were selected, followed by distribution of questionnaires, which were filled and collected to ensure a high response rate. Questionnaires were then gathered back for analysis.

3.9 Validity and Reliability

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

3.9.1 Validity

The study carried out both face and content validity. Face validity involved the supervisor reviewing the questionnaire items and providing advice accordingly, while content validity was conducted by the supervisor together with another expert from Industry Bank. The validity test was performed to ensure that the results obtained from the questionnaire survey were an accurate reflection of dimensions under assessment (Sürücü & Maslakci, 2020). A minimum value of CVI (Coefficient Validity Index) of 0.7 and above was required for the instrument to be accepted. The Content Validity Index (CVI) was computed using the formula.

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

3.9.1 Reliability

The study tested the internal consistency of the research instruments using the Cronbach's alpha coefficient, which was computed using STATA Version 16. The reliability of the questionnaire was enhanced through pre-testing with pilot samples, and the computations were checked to ensure consistency. Reliability testing was conducted to determine whether the items were dependable as measurement tools (Melo et al., 2021). According to Sekaran (2003), a Cronbach's alpha coefficient of 0.7 or above was considered adequate for establishing the reliability of the instrument.

3.10 Data Analysis

Data analysis provides the framework for interpreting both quantitative and qualitative findings in this study. By combining statistical techniques with thematic examination, the study ensures that numerical trends are clearly explained while deeper insights from participants' perspectives are captured. This dual approach enhances validity and offers a comprehensive understanding of the research problem.

3.10.1 Quantitative Analysis

Data was coded and analyzed using STATA Version 16. The quantitative analysis adopted a descriptive approach, summarizing data in tables and graphs to facilitate the description of numerical variables and drawing of significant conclusions from collected data. Furthermore, percentages, means, and standard deviations were examined and interpreted to provide a clear understanding of patterns and trends in credit risk management practices at DFCU Bank Uganda Limited.

3.10.2 Qualitative data analysis

After gathering the data, it was qualitatively interpreted. A full examination was conducted of every assertion, viewpoint, narrative, and description provided by significant informants (Fellows & Liu, 2021). ATLAS-ti, a qualitative research tool, was used to edit, code, create themes, and analyze the field notes as part of the data analysis. To generate meaningful themes and patterns for the qualitative analysis, the data was edited, condensed, and cleaned. The key themes that emerged from participants' responses were taken into consideration during the analysis using the software (Silverman, 2020).

From the qualitative data, there was recognition, examination, and interpretation of all patterns related to the literal meanings (Rodríguez-Dorans & Jacobs, 2020). To increase the study's validity, all data from interviewees and supporting documentation were triangulated during the analysis. The study also selected and used outstanding relevant quotations, sentences, statements, and expressions to reflect participants' actual feelings without altering their meaning.

3.11 Ethical considerations

Informed consent from respondents was sought by providing clear explanations about the research's purpose, expected duration, procedures, and their rights. Confidentiality, data coding, and potential research benefits were also communicated as explained below:

Informed Consent: After receiving an introductory letter from the College of Business and Management Sciences to present to DFCU Bank and selected branch managers, the researcher facilitated their participation in the study. Before proceeding, each participant's role and rights related to the research were clearly outlined. Questionnaires were distributed exclusively to those who willingly provided informed consent, while individuals who declined or expressed uncertainty were not included (Nijhawan et al., 2013).

Privacy/Anonymity: Personal identifiers such as respondents' names, locations, or any details that could reveal their identity were excluded from the data collection instruments, unless a respondent had explicitly consented to their inclusion (Elkoumy et al., 2021).

Voluntary Participation: Participants in the study were not subjected to coercion. They retained the option to withdraw their participation at any time without providing any explanation (Nijhawan et al., 2013).

Confidentiality: For reasons of confidentiality, all responses from the questionnaire survey were used only for academic purposes, and only parties directly related to the study had access to the data collected (Elkoumy et al., 2021).

Avoid Harm: Necessary precautions were taken to ensure the safety and well-being of all participants throughout the study. No action—deliberately or inadvertently—was taken that could result in physical, emotional, or psychological harm. This included avoiding situations that could lead to distress, anxiety, diminished self-worth, or violations of personal privacy (Khaled & Al-Tamimi, 2021).

Plagiarism: During the review of literature by various researchers, scholars, and academicians, the researcher rephrased and paraphrased statements to avoid cases of plagiarism. The research was tested for plagiarism using Plagiarism X Checker software (Khalil & Er, 2023).

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND DISCUSSION OF FINDINGS.

4.1 Introduction

The purpose of this study was to investigate credit risk management practices at DFCU Bank Uganda Limited. 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.

- To examine different credit risk practices used by DFCU Bank Uganda Limited
- To determine credit risk management challenges at DFCU Bank Uganda Limited
- To suggest ways of improving credit risk management at DFCU Bank Uganda Limited.

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	Quantitative	87	78	89.7%
Department heads and managers	Qualitative	15	7	46.7%
Total		102	85	83.3%

Source: Primary Data (2026)

The study targeted 102 respondents. Out of these, 85 respondents participated in the study representing 83.3% response rate, seven (07) respondents were key informants and participated in key informant interviews while 78 completed self-administered questionnaires. Seventy-eight (78) respondents took part in quantitative study giving a response rate of 89.7% which is above 60% recommended (Sekeran, 2003).

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 of education and department in DFCU bank Uganda limited below

4.3.1 Gender of the respondents

The findings in Table 4.2 shows that out of 85 respondents, 64.7% were female while 35.3% were male. This reflects the general trend in Uganda's banking sector, where female staff outnumber males in a ratio close to 2:1 (Human Resource Report, 2024). This indicates that female employees are leading DFCU Bank's efforts in operational risk management, while ensuring perspectives from both gender divisions were included.

Table 4. 2: Gender of the Respondents

Gender	Frequency	Percent (%)
Female	55	64.7
Male	30	35.3
Total	**85**	**100**

Source: Primary Data (2026)

4.3.2 Experience of the bank Staff

The distribution of staff experience shows that 41.2% have more than 10 years of experience, while 29.4% have between 5–10 years, 18.8% have 1-4 years' experience and only 10.6% have less than a year of experience. This reveals that most of DFCU Bank personnel who participated in the study have substantial experience to guide decision-making in credit risk management, and it also reflects a high employee retention rate as shown in Table 4.3

Table 4. 3; Experience of the bank Staff

Item	Frequency	Percent
Less than a year	9	10.6
Between 1 and 4 years	16	18.8
Between 5 and 10 years	25	29.4
More than 10 years	35	41.2
Total	**85**	**100**

Source: Primary data (2026)

4.3.3 Age bracket

As shown in Table 4.4, majority of respondents (35.3%) were aged 30–39, followed by 29.4% in the age bracket of 40–49, 20% in the age bracket of 50–59, 12.9% in the age bracket of 18–29 and only 2.4% were aged 60 and above. This distribution demonstrates that DFCU Bank's workforce is largely composed of mature and experienced individuals who are well-positioned to make informed decisions. The dominance of the 30–39 age group suggests that the bank relies heavily on staff in their prime working years, combining energy with professional maturity. The significant representation of employees aged 40–49 and 50–59 further strengthens the institution's capacity, as these groups bring seasoned judgment and stability. The small proportion of younger staff indicates limited entry-level recruitment, while the minimal number of employees above 60 reflects natural retirement trends. Collectively, the age distribution underscores a workforce that is balanced, mature, and capable of managing complex credit risks.

Table 4. 4: Age Group of the Respondents

Age group	Frequency	Percent (%)
18–29	11	12.9
30–39	30	35.3
40–49	25	29.4
50–59	17	20
60 years and above	2	2.4
Total	85	100

Source: Primary Data (2026)

4.3.4 Level of education

Table 4.5 indicates that 69.4% of respondents hold bachelor's degree, 11.8% hold a master's degree, 10.6% hold a diploma, and 8.2% had advanced level certificates. None reported ordinary level certificates or PhDs. This distribution highlights that DFCU Bank employs a highly educated workforce, with majority meeting the minimum qualification standard of a bachelor's degree, which is typical for entry into the banking sector. The presence of master's degree holders demonstrates that some staff pursue postgraduate education to qualify for administrative and leadership roles. Diploma and advanced certificate holders, though fewer, contribute to operational tasks and provide diversity in educational backgrounds. The findings suggest that DFCU Bank prioritizes knowledge and professional competence in its recruitment, ensuring that staff possess the skills necessary for effective credit risk management. This educational profile strengthens the bank's ability to make informed decisions and enhances its overall institutional capacity.

Table 4. 5: Education levels of bank Staff

Item	Frequency	Per cent
Ordinary level certificate	0	0
Advanced level certificate	7	8.2
Diploma	9	10.6
Bachelor's degree	59	69.4
Master's degree	10	11.8
PhD	0	0
Total	85	100.0

Source: Primary data (2026).

4.3.5 Department of the respondent

The respondents were asked to indicated their departments, and the results in Table 4.6, shows that majority of respondents are from Credit department represented by 51.9%, followed by those from finance department at 22.8% and those from the risk management department represented by 15.2%, and the least being those from legal department represented by 10.1%. The large number of credit officers are not surprising since this study focused on credit risk management practices and thus sought information from a big number of respondents from credit department. These are key informants since they not only have daily experience with credit management practices and credit quality, but they are also assumed to be custodians of bank information relating to the same.

Table 4. 6: Table showing Department of the respondent

Department	Frequency	Percentage
Credit	44	51.8
Finance	19	22.4
ICT	13	15.3
Marketing	9	10.5
Total	**85**	**100**

Source: Primary Data (2026)

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 different credit risk practices used by DFCU Bank Uganda Limited, credit risk management challenges at DFCU Bank Uganda Limited and strategies to improve credit risk management at DFCU Bank Uganda Limited. Using a closed ended questionnaire and responses were measured on a 5-point scale of strongly disagreed, disagree, neutral, agreed and strongly agree. Descriptive statistics were run to determine the extent of agreement or disagreement they had on the statement on a five-point Likert scale. Basing on the scale adopted; strongly agree (5) and, agree (4) indicate relevance of the statement while neutral (3), disagree (2) and strongly disagree (1) indicate that the statement is insignificant. As such, mean scores that are above 3 indicates that the respondents agreed on statement, 3 denotes that the respondents are not sure of the statement and below 3 represents statements that are insignificant.

The standard deviation was used to complement mean scores. As a result, the lower the standard deviation the more the significance of the statement.

- To determine credit risk management challenges at DFCU Bank Uganda Limited
- To suggest ways of improving credit risk management at DFCU Bank Uganda Limited.

4.4.1 Review of the different credit risk practices used by DFCU Bank Uganda Limited.

Table 4.7 below, shows study respondents indicated that the bank has effective internal controls to manage credit risk exposure (Mean = 4.33, SD = 0.80), showing strong agreement that DFCU Bank prioritizes risk governance and compliance. Additionally, respondents agreed that collateral requirements are consistently enforced (Mean = 3.87, SD = 1.04), reflecting the bank's reliance on security to mitigate loan default risks. Furthermore, respondents agreed that DFCU Bank has a clearly documented and communicated credit risk policy (Mean = 3.72, SD = 1.02), which provides guidance for staff in managing credit operations.

Furthermore, the findings revealed moderate agreement that borrower creditworthiness is thoroughly assessed using standardized procedures (Mean = 3.36, SD = 1.27), and that loan performance is regularly monitored to detect early signs of default (Mean = 3.58, SD = 1.50). Respondents acknowledged that risk ratings are assigned and updated periodically (Mean = 3.23, SD = 1.51), and that credit risk practices contribute to financial sustainability (Mean = 3.76, SD = 0.765).

However, respondents expressed disagreement regarding systematic credit risk identification before loan approval (Mean = 2.23, SD = 1.41) and active tracking of non-performing loans through recovery strategies (Mean = 2.75, SD = 1.71). These lower scores suggest gaps in

proactive risk identification and loan recovery mechanisms, which exposed the bank to higher default risks.

From interviews one of the respondents, it was revealed that the bank's credit policy is comprehensive, defining roles and responsibilities for employees involved in credit-related processes. One respondent reported that *"DFCU Bank prioritizes customer screening, fraud detection, credit acquisition, portfolio management, comprehensive reporting, loan loss reserve calculation and monitoring, and treatment of suspicious accounts. Employees are trained to recognize unusual borrowing patterns and report them promptly. The policy also outlines clear guidelines for assessing creditworthiness during loan acquisition, monitoring loan portfolios, and generating reports on credit performance, risk exposure, and portfolio health. This policy plays a pivotal role in maintaining the bank's financial sustainability and safeguarding customers' interests."*

In another interview, the head of the credit department submitted that *"As a credit officer, I know our loan application requirements are stringent. We carefully evaluate credit history, income stability, collateral, and debt-to-income ratios before approval. These standards protect the bank's interests while ensuring responsible lending opportunities for qualified applicants. Our commitment to high standards guarantees long-term institutional success and supports our customers' financial well-being."*

Table 4. 7: The different credit risk practices used by DFCU Bank Uganda Limited

Statement	Min.	Max.	Mean	Std. Dev.
DFCU Bank has a clearly documented and communicated credit risk policy.	1.00	5.00	3.72	1.02
Credit risk identification is systematically carried out before loan approval.	1.00	5.00	2.23	1.41
Borrower creditworthiness is thoroughly assessed using standardized procedures.	1.00	5.00	3.36	1.27
The bank regularly monitors loan performance to detect early signs of default.	2.00	5.00	3.58	1.50
Collateral requirements are consistently enforced to mitigate credit risk.	1.00	5.00	3.87	1.04
Risk ratings are assigned to borrowers and updated periodically.	1.00	5.00	3.23	1.51
The bank has effective internal controls to manage credit risk exposure.	1.00	5.00	4.33	.80
Non-performing loans are actively tracked and managed through recovery strategies.	1.00	5.00	2.75	1.71
Credit risk management practices at DFCU Bank contribute to overall financial sustainability.	1.00	5.00	3.76	0.765

Source: Primary Data (2026)

4.4.2 The credit risk management challenges at DFCU Bank Uganda Limited.

Table 4.8 below, study respondents indicated that ineffective loan recovery procedures hinder financial performance (Mean = 3.57, SD = 0.75), showing strong agreement that loan recovery remains a major challenge. Respondents also agreed that lack of separation between loan approval and loan review personnel reduces objectivity (Mean = 3.61, SD = 0.547), and that inadequate documentation and customer agreements increase credit risk exposure (Mean = 3.50, SD = 1.05). Similarly, respondents noted that weak credit monitoring systems contribute to loan defaults

(Mean = 3.43, SD = 0.987), and inadequate borrower assessment increases the risk of non-performing loans (Mean = 3.21, SD = 1.537).

Moderate agreement was observed on limited diversification of loan portfolios (Mean = 3.12, SD = 1.006) and delays in financial reporting weakening monitoring (Mean = 2.83, SD = 0.691). However, respondents disagreed that economic downturns (Mean = 2.33, SD = 1.255), insufficient collateral valuation (Mean = 2.17, SD = 1.352), and regulatory challenges (Mean = 2.33, SD = 0.875) were the primary drivers of credit risk, suggesting internal weaknesses outweigh external factors.

From interviews it was revealed that *"DFCU Bank faces persistent challenges in credit monitoring and borrower assessment. While policies exist, weak enforcement and delays in reporting often allow risks to escalate. Staff admitted that inadequate documentation and poor collateral valuation undermine recovery efforts, leaving the bank exposed to defaults."*

In another interview, a senior credit officer submitted that *"Our loan recovery procedures are not as effective as they should be. Sometimes loan approval and review are handled by the same officers, which compromises objectivity. We need stronger separation of duties and better monitoring systems. Although external factors like economic downturns affect repayment, most of our challenges are internal — especially weak follow-up and insufficient borrower vetting. Addressing these gaps would significantly improve our credit risk management."*

Table 4. 8: The credit risk management challenges at DFCU Bank Uganda Limited

Statement	Min.	Max.	Mean	Std. Dev
Weak credit monitoring systems contribute to loan defaults.	1.00	5.00	3.43	0.987
Inadequate borrower assessment increases the risk of non-performing loans.	1.00	5.00	3.21	1.537
Ineffective loan recovery procedures hinder financial performance.	1.00	5.00	3.57	0.75
Economic downturns negatively affect borrowers' repayment capacity.	1.00	5.00	2.33	1.255
Limited diversification of loan portfolios exposes the bank to higher risk.	1.00	5.00	3.12	1.006
Insufficient collateral valuation contributes to poor loan recovery.	1.00	5.00	2.17	1.352
Delays in financial reporting weaken credit risk monitoring.	1.00	5.00	2.83	0.691
Lack of separation between loan approval and loan review reduces objectivity.	1.00	5.00	3.61	0.547
Inadequate documentation and customer agreements increase credit risk exposure.	1.00	5.00	3.50	1.05
Regulatory and compliance challenges affect the effectiveness of credit risk management.	1.00	5.00	2.33	0.875

Source: Primary data (2026)

4.4.3 Strategies for improving credit risk management at DFCU Bank Uganda Limited.

Table 4.9 below shows respondents strongly agreed that implementing stricter credit monitoring systems would enhance portfolio performance (Mean = 4.14, SD = 0.89). This suggests that continuous monitoring and early detection of repayment challenges are seen as the most effective strategy for reducing defaults. Respondents also emphasized the importance of standardizing loan documentation and agreements (Mean = 3.83, SD = 1.055), which minimizes exposure to disputes and ensures consistency in credit processes. Similarly, strengthening borrower assessment

procedures (Mean = 3.71, SD = 1.45) was highlighted as a critical measure to reduce loan defaults, reflecting the need for thorough vetting before loan approval.

The findings further show that regular training of credit officers (Mean = 3.62, SD = 1.25) and incorporating modern credit scoring techniques (Mean = 3.67, SD = 1.352) are considered effective strategies for enhancing risk management. These practices ensure that staff remain updated on evolving risk factors and that borrower evaluation is more objective and data-driven. Respondents also agreed that enhancing collateral valuation processes (Mean = 3.55, SD = 1.32) would improve loan recovery, while expanding loan portfolio diversification (Mean = 3.36, SD = 1.24) would reduce exposure to sector-specific risks. Together, these strategies point to a balanced approach that combines human expertise, technological innovation, and portfolio restructuring.

However, respondents expressed weaker agreement on strategies such as strengthening internal controls (Mean = 2.78, SD = 1.352) and increasing transparency and communication with borrowers (Mean = 2.67, SD = 1.255). This suggests that while these measures are recognized, they are not perceived as immediate priorities compared to monitoring, assessment, and documentation. Overall, the results indicate that DFCU Bank can significantly improve its credit risk management by focusing on stricter monitoring, standardized documentation, borrower assessment, and modern scoring techniques, while gradually reinforcing internal controls and borrower communication to achieve long-term sustainability.

From interviews it was revealed that *"DFCU Bank is actively working to strengthen borrower assessment procedures and collateral valuation processes. Staff emphasized that thorough vetting of clients, combined with accurate collateral valuation, would significantly reduce loan defaults and improve recovery rates. Respondents noted that modern credit scoring techniques are being*

considered to enhance borrower evaluation, making the process more objective and data-driven. These strategies are seen as critical for safeguarding the bank's portfolio and ensuring financial sustainability."

In another interview, a senior credit officer submitted that *"Regular training of credit officers is essential. Our staff must stay updated on emerging risks, regulatory changes, and new credit scoring models. Training equips us with the skills to identify risks early and apply consistent standards in loan approval. Implementing stricter monitoring systems is also a priority, as it allows us to detect repayment challenges before they escalate. These measures will strengthen our institution's resilience against credit risk."*

Additionally, one manager highlighted that *"Standardizing loan documentation and agreements is a practical step toward minimizing disputes and ensuring compliance. Expanding loan portfolio diversification will also reduce exposure to sector-specific risks, especially in volatile industries. While internal controls and borrower communication need improvement, the most immediate gains will come from monitoring, assessment, and documentation reforms. These strategies, if fully implemented, will transform our credit risk management practices and secure long-term stability for DFCU Bank."*

Table 4. 9: Strategies for improving credit risk management at DFCU Bank Uganda Limited

Statement	Min.	Max	Mean	Std. Dev.
Strengthening borrower assessment procedures will reduce loan defaults.	1.00	5.00	3.71	1.45
Enhancing collateral valuation processes will improve loan recovery.	1.00	5.00	3.55	1.32
Regular training of credit officers will improve risk management effectiveness.	1.00	5.00	3.62	1.25
Implementing stricter credit monitoring systems will enhance portfolio performance.	1.00	5.00	4.14	0.89
Expanding loan portfolio diversification will reduce exposure to sector-specific risks.	1.00	5.00	3.36	1.24
Standardizing loan documentation and agreements will minimize credit risk exposure.	1.00	5.00	3.83	1.055
Strengthening internal controls will improve compliance and reduce operational risks.	1.00	5.00	2.78	1.352
Incorporating modern credit scoring techniques will enhance borrower evaluation.	1.00	5.00	3.67	1.352
Increasing transparency and communication with borrowers will improve repayment performance.	1.00	5.00	2.67	1.255

Source Primary data (2026).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter comprises of summary of the findings, conclusion, and recommendations in relation to study objectives and findings.

5.1 Summary of Findings

The study investigated the different credit risk practices used by DFCU Bank Uganda Limited, determined credit risk management challenges at DFCU Bank Uganda Limited and suggested ways of improving credit risk management at DFCU Bank Uganda Limited.

5.1.1 The different credit risk practices used by DFCU Bank Uganda Limited.

The study reviewed different credit risk management practices at DFCU Bank Uganda Limited and found that the bank has a clearly documented and communicated credit risk management policies (Mean = 3.72, SD = 1.02), enforces collateral requirements consistently (Mean = 3.87, SD = 1.04), and regularly monitors loan performance to detect early signs of default (Mean = 3.58, SD = 1.50). Borrower creditworthiness is assessed using standardized procedures (Mean = 3.36, SD = 1.27), risk ratings are assigned and updated periodically (Mean = 3.23, SD = 1.51), and overall practices contribute to financial sustainability (Mean = 3.76, SD = 0.765). Respondents strongly agreed that effective internal controls exist to manage credit risk exposure (Mean = 4.33, SD = 0.80), but expressed weaker agreement on systematic credit risk identification before loan approval (Mean = 2.23, SD = 1.41) and active tracking of non-performing loans through recovery strategies (Mean = 2.75, SD = 1.71). This indicates strengths in policy clarity, monitoring, and controls, but highlights gaps in proactive risk identification and recovery mechanisms.

5.1.2 Credit risk management challenges at DFCU Bank Uganda Limited

The study revealed that DFCU Bank Uganda limited faces several credit risk management challenges, mainly stemming from internal inefficiencies rather than external pressures. Respondents strongly agreed that ineffective loan recovery procedures hinder financial performance (Mean = 3.57, SD = 0.75), while lack of separation between loan approval and loan review reduces objectivity (Mean = 3.61, SD = 0.547). Other notable challenges include inadequate documentation and customer agreements (Mean = 3.50, SD = 1.05), weak credit monitoring systems contributing to loan defaults (Mean = 3.43, SD = 0.987), and inadequate borrower assessment increasing non-performing loans (Mean = 3.21, SD = 1.537). Moderate concerns were raised about limited loan portfolio diversification (Mean = 3.12, SD = 1.006) and delays in financial reporting (Mean = 2.83, SD = 0.691). However, respondents placed less emphasis on external factors such as economic downturns (Mean = 2.33, SD = 1.255), insufficient collateral valuation (Mean = 2.17, SD = 1.352), and regulatory challenges (Mean = 2.33, SD = 0.875). Overall, the findings highlight that DFCU Bank's greatest credit risk challenges lie in monitoring, recovery, documentation, and borrower assessment, which require strengthening to improve financial performance.

5.1.3 Strategies of improving credit risk management at DFCU Bank Uganda Limited.

The study identified several strategies that can strengthen credit risk management at DFCU Bank. Respondents strongly supported stricter credit monitoring systems (Mean = 4.14, SD = 0.89) as the most effective measure, alongside standardizing loan documentation and agreements (Mean = 3.83, SD = 1.055) and strengthening borrower assessment procedures (Mean = 3.71, SD = 1.45) to reduce loan defaults. Other important strategies included regular training of credit officers (Mean = 3.62, SD = 1.25), incorporating modern credit scoring techniques (Mean = 3.67, SD =

1.352), and enhancing collateral valuation processes (Mean = 3.55, SD = 1.32), all of which improve loan recovery and evaluation. Respondents also emphasized expanding loan portfolio diversification (Mean = 3.36, SD = 1.24) to reduce sector-specific risks. However, weaker agreement was noted for strengthening internal controls (Mean = 2.78, SD = 1.352) and increasing transparency with borrowers (Mean = 2.67, SD = 1.255), suggesting these are less immediate priorities compared to monitoring, assessment, and documentation reforms. Overall, the findings highlight a balanced approach combining monitoring, documentation, training, and diversification.

5.2 Discussion of the findings

DFCU Bank Uganda Limited, a commercial bank in Kampala, was studied to assess its credit practices, identify challenges affecting credit risk management, and propose strategies for improvement. The findings revealed that while the bank has a documented credit risk policy, enforces collateral requirements, and maintains effective internal controls, weaknesses remain in proactive risk identification and recovery of non-performing loans.

5.2.1 The different credit risk practices used by DFCU Bank Uganda Limited.

The study of DFCU Bank Uganda Limited revealed that its credit risk practices are anchored in a clearly documented policy, collateral enforcement, loan monitoring, and strong internal controls, which together contribute to financial sustainability. These findings align with recent scholars emphasizing importance of comprehensive credit policies. For instance, Nguyen et al. (2021) highlight that employee involvement in credit processes reduces default risk, Konovalova and Savchina (2021) show that staff qualifications influence policy effectiveness, and Carletti and Daltung (2022) stress standardized borrower evaluation as a safeguard against systemic risk.

Borrower assessment and creditworthiness checks were found to be moderately effective, reflecting gaps in systematic risk identification before loan approval. This is consistent with Nassozi (2024), who observed that inadequate borrower vetting increases non-performing loans in Ugandan banks. Similarly, Wemesa (2026) emphasized that strengthening borrower assessment reduces loan defaults, while Balaggadde (2023) noted that clear staff responsibilities improve the quality of credit decisions. These studies reinforce the need for more rigorous borrower evaluation at DFCU Bank.

Collateral enforcement and monitoring practices were rated highly, demonstrating the bank's reliance on security to mitigate risk. Basel (2021) emphasized that effective collateral valuation enhances recovery rates, Scannella and Polizzi (2021) found that credit management indicators explain variations in bank performance, and Modugu and Dempere (2022) stressed interconnected systems for assessing credit risk throughout the lending cycle. These findings support the view that collateral and monitoring are critical pillars of credit risk management.

Risk ratings and reporting were also highlighted as part of the bank's practices, though with moderate effectiveness. Nguyen et al. (2021) linked structured reporting to improved financial performance, Konovalova and Savchina (2021) emphasized the influence of both internal and external factors on credit policy effectiveness, and Rajan (1994, revisited in contemporary studies) suggested that credit policies drive business cycles through managerial decisions. Together, these studies confirm the importance of risk ratings and reporting in enhancing transparency and portfolio health.

Despite these strengths, weaknesses remain in proactive risk identification and recovery of non-performing loans. Nassozi (2024) observed that ineffective recovery procedures hinder financial performance, Wemesa (2026) recommended stricter monitoring and borrower vetting,

and Balaggadde (2023) noted that delays in reporting weaken risk detection. These findings collectively highlight that while DFCU Bank's credit policy is comprehensive, improvements in proactive identification and recovery strategies are essential for long-term sustainability.

In addition, the study found regular and abrupt field visits by a bank to check on a business's progress is an indicator of credit policy completeness because they demonstrate the bank's active role in credit risk management. Such visits allow the bank to assess the financial health and risks associated with the business, ensuring that the credit extended is being used effectively and that the business is operating as expected. The finding is in line with the findings of Scannella and Polizzi (2021) found that credit management indicators, including credit policy, explain a significant portion of variations in the financial performance of banks1. Another study by Modugu and Dempere (2022) emphasized the importance of interconnected systems for assessing credit risk at all stages of the lending process, which could include field visits as a method of ongoing credit monitoring

5.2.2 Credit risk management challenges at DFCU Bank Uganda Limited

The study of DFCU Bank Uganda Limited revealed that its credit risk management challenges are primarily internal, reflecting inefficiencies in monitoring, recovery, documentation, and borrower assessment. Scholars have consistently emphasized these issues in recent years. For instance, Nassozi (2024) observed that inadequate borrower vetting and weak documentation increase the likelihood of non-performing loans, while Balaggadde (2023) highlighted that ineffective recovery procedures undermine financial performance. Similarly, Wemesa (2026) stressed that weak monitoring systems contribute directly to loan defaults, reinforcing the findings of this study.

The lack of separation between loan approval and review was also identified as a challenge, reducing objectivity in credit decisions. This aligns with Nguyen et al. (2021), who argued that employee involvement and clear role separation reduce default risks, and Konovalova & Savchina (2021), who emphasized that staff responsibilities and qualifications influence the effectiveness of credit policy implementation. Carletti & Daltung (2022) further noted that weak governance structures in credit processes expose banks to higher risks, supporting the evidence from DFCU Bank.

Moderate concerns such as limited loan portfolio diversification and delays in financial reporting were also noted. Scannella & Polizzi (2021) found that diversification reduces sector-specific risks, while Modugu & Dempere (2022) emphasized the importance of interconnected systems for timely reporting and monitoring. Basel (2021) added that delays in reporting weaken early risk detection, which is consistent with the study's findings.

Interestingly, respondents placed less emphasis on external factors such as economic downturns, collateral valuation, and regulatory challenges. This observation is supported by Wemesa (2026), who argued that internal inefficiencies outweigh external pressures in Ugandan banks. Nassozi (2024) similarly noted that regulatory challenges are less impactful compared to weak internal processes, while Balaggadde (2023) emphasized that strengthening internal systems is more critical for improving credit risk management.

Overall, the findings and supporting studies between 2020 and 2026 highlight that DFCU Bank's greatest credit risk management challenges lie in internal weaknesses particularly monitoring, recovery, documentation, and borrower assessment. Addressing these gaps, as other scholars suggested, would significantly enhance the bank's resilience and financial performance.

Other scholars who investigated this phenomenon and found similar outcomes, are a study on Italian banks during the financial crisis between 2006 and 2010 by Tutino et al., (2013) observed that smaller banks, which were more likely to extend credit to revive local businesses, faced a significant deterioration in the quality of their credit exposures. Another research by Benvenuti et al. (2022) highlighted that even households with full access to formal credit markets are more likely to be indebted to informal sources when they have problems paying back their loans, suggesting that informal loans can act as lenders of last resort in distress, which could lead to a deterioration in credit quality. Moreover, a study on defaults in bank loans to SMEs during the financial crisis found a positive relation between collateral and default, indicating that even secured loans did not prevent defaults. This suggests that providing liquidity with the aim of business revitalization does not always result in positive outcomes and can contribute to credit quality deterioration (Duarte et al., 2018).

Another 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.

5.2.3 Credit policy strategies for enhancing asset quality at the Bank.

The current study determined that in order to enhancing asset quality at DFCU bank Uganda, all loans advanced to customers should be monitored by a specific category of staff to ensure that they

do not breach conditions of approvals. Loan monitoring is a crucial practice for financial institutions to assess and manage asset quality. It involves supervising borrowers' compliance with loan obligations, mitigating risks, and identifying opportunities(Byrne & Kelly, 2019). Key components of asset quality policies include credit risk assessment, loan classification, provisioning, collateral management, portfolio diversification, and regular monitoring and reporting of deviations from policy norms (Abata, 2014).

Branzoli and Fringuellotti (2022) in their research on Italian credit institutions found that effective bank monitoring significantly reduces delinquency rates. In addition, Hu and Mao (2017) discovered that firms with better accounting quality are more likely to have performance pricing loans, emphasizing the impact of monitoring costs on debt contracts. And finally, ECB (2022) The European Central Bank highlighted the importance of monitoring credit risks, especially during crises, to prevent distress in sectors weakened by external factors.

The loans should be tailored to specific businesses of different customers so that to reduce loan defaults. The prediction of default in bank loans to small and medium enterprises (SMEs) has been a concern for decades. Duarte et al. (2018) during the financial crisis found that collateral had a positive relation with default, while guarantees had a negative relation. This suggests that collateral alone may not always prevent default. The joint influence of collateral and credit score matters. Collateral combined with high credit score had a negative relation to default, whereas collateral with low credit score had a positive relation to default. Furthermore, risk management practices are crucial for SME policies, risk management by banks, and understanding financial crises Tailoring loans to specific businesses can indeed impact default rates.

The study revealed that banks should ensure that clients present their cash flow statements and other financial records of the business which should be analyzed by bank credit analysts. This is

consistent with Chen (2022) who proposed using a linear regression model with penalties and a neural network prediction model to improve bankruptcy assessment accuracy. By quickly identifying customer information, banks can significantly reduce default risk in loans. In a similar finding This work compares the performance of seven different classifiers applied to benchmark datasets for credit risk assessment. It evaluates methods like meta-classification, which combines results from multiple classifiers. The goal is to assess the probability of loan defaults accurately (Łuczak et al., 2021).

In a related finding, the study indicated that breach letters should always be issued to customers who breach the conditions within the covenant tracker. Breach letters are formal notifications that borrowers receive when they violate loan terms, such as missing payments or covenant violations. They seek to prompt corrective action, reduce risk, and protect the lender-borrower relationship (Duarte et al., 2018). However, their effectiveness is determined by a variety of factors. Scholars discovered that lower credit ratings, collateral, and guarantees can increase default risk. Digital communication, such as Intrum's Customer Retention Management, can also help to reduce defaults. Combining breach letters with digital solutions and taking into account borrower-specific factors can improve their effectiveness in reducing loan defaults (Nigmonov & Shams, 2021).

5.3 Contribution of the study

This study contributes to understanding of credit risk management in Ugandan commercial banks by providing empirical evidence on the credit risk management practices, challenges, and strategies to challenges at DFCU Bank Uganda Limited. It highlights the completeness of the bank’s credit policy, including collateral enforcement, monitoring systems, and internal controls, while identifying gaps in proactive risk identification and recovery mechanisms. By integrating

both quantitative findings and qualitative insights, the study enriches the literature on how internal inefficiencies such as weak documentation, inadequate borrower assessment, and ineffective recovery procedures undermine credit performance more than external pressures.

The study further contributes to policy and practice by recommending strategies such as stricter monitoring, standardized documentation, enhanced borrower assessment, modern credit scoring techniques, and regular staff training. These strategies provide actionable guidance for DFCU Bank and other financial institutions seeking to strengthen resilience against credit risk.

Finally, the study adds to academic discourse by bridging theory and practice in credit risk management. It demonstrates that while Ugandan banks have made progress in policy clarity and collateral enforcement, sustainable performance requires continuous improvement in monitoring, recovery, and borrower evaluation. This contribution is significant for scholars, practitioners, and policymakers, as it provides a contextualized understanding of credit risk management in emerging economies and offers practical strategies for enhancing financial stability.

5.4 Conclusions

This study set out to examine credit risk management practices, challenges, and strategies to address the challeges at DFCU Bank Uganda Limited. The findings revealed that the bank has a comprehensive credit policy, with clear documentation, collateral enforcement, monitoring systems, and effective internal controls that contribute to financial sustainability. However, weaknesses remain in proactive risk identification, borrower assessment, and recovery of non-performing loans, which undermine the effectiveness of the overall framework.

The study further showed that the most pressing challenges are internal inefficiencies such as inadequate documentation, weak monitoring, ineffective recovery procedures, and poor separation of roles in loan approval and review. External factors like economic downturns and regulatory pressures were found to be less significant compared to these internal gaps.

To address these weaknesses, respondents emphasized strategies including stricter monitoring systems, standardized documentation, enhanced borrower assessment, modern credit scoring techniques, regular staff training, and diversification of loan portfolios. These measures, if implemented, would strengthen resilience against credit risk and improve portfolio quality.

In conclusion, while DFCU Bank has made progress in establishing a clear and structured credit risk management framework, the study highlights the need for continuous improvement in monitoring, recovery, and borrower evaluation. Strengthening these areas will not only reduce non-performing loans but also enhance financial performance and sustainability in Uganda's competitive banking sector.

5.5 Recommendations

The study recommends that DFCU Bank Uganda Limited prioritize strengthening loan monitoring and recovery processes. The bank should adopt robust systems to track loans throughout their lifecycle, ensuring early detection of deviations from approval conditions and taking corrective action promptly. Effective monitoring should include credit risk assessment, loan classification, adequate provisioning, and collateral management, all of which are essential for maintaining a healthy loan portfolio.

The study recommends that DFCU Bank customize loan products to suit the specific needs of different businesses. By tailoring loans to industry dynamics, market conditions, and borrowers' financial health, the bank can reduce default risks. Careful analysis of clients' financial records and repayment capacity will enable the structuring of loans that align with business models, thereby improving repayment performance and reducing non-performing loans.

The study recommends that DFCU Bank issue timely breach letters to customers who violate loan conditions. Prompt communication of breaches reinforces borrower accountability and ensures transparency in loan management. Breach letters serve as formal notifications that emphasize adherence to loan covenants and allow corrective measures to be taken before defaults escalate.

The study recommends that DFCU Bank integrates digital solutions into its credit risk management framework. Automated reminders, alerts, and tracking systems can enhance communication with borrowers and improve efficiency in monitoring loan performance. Digital platforms also enable real-time tracking of repayment behavior, allowing the bank to detect risks early and respond quickly. Investment in strong digital infrastructure will improve overall loan management and reduce operational inefficiencies.

The study recommends that DFCU Bank consider borrower-specific factors in credit risk management. Beyond financial metrics, qualitative aspects such as business models, industry challenges, and external influences should be taken into account. A holistic approach ensures that struggling businesses receive restructuring support while thriving businesses benefit from expanded credit lines. This borrower-centric strategy promotes better risk management and strengthens the lender-borrower relationship.

5.6 Limitations of the study

The study faced several methodological limitations that may affect the generalizability of its findings. First, the research was conducted exclusively at DFCU Bank Uganda Limited, which limits the applicability of results to other commercial banks in Uganda or the wider region. Second, the study relied heavily on self-reported data from respondents, which may be subject to bias or inaccuracies in perception. Third, the sample size, though adequate for analysis, may not fully represent the diversity of staff experiences across different branches and departments. Additionally, the study focused primarily on internal practices and challenges, with less emphasis on external macroeconomic and regulatory factors that could also influence credit risk management. Finally, time and resource constraints restricted the depth of data collection, particularly in triangulating quantitative findings with extensive qualitative interviews.

5.7 Areas for Further Study

Future research should expand beyond a single institution to include comparative studies across multiple banks in Uganda and the East African region, thereby enhancing generalizability. Studies could also adopt a mixed-methods approach, integrating quantitative surveys with in-depth interviews and case studies to provide richer insights into credit risk management practices. Further investigation into the role of external factors such as regulatory frameworks, economic shocks, and technological innovations in shaping credit risk outcomes would be valuable. Researchers may also explore the impact of digital financial solutions, including fintech platforms and mobile banking, on credit monitoring and recovery. Finally, longitudinal studies tracking credit risk management practices over time would help to assess the sustainability and effectiveness of strategies implemented by banks in dynamic financial environments

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APPENDIX

MAKERERE UNIVERSITY

QUESTIONNAIRE

My name is Tumushime Jamira, a student at Makerere University pursuing a Master of Business Administration. I am currently conducting a study titled " Assessment of the Credit Practices at DFCU Bank Uganda Limited." You have been selected to participate in this study because your insights are highly valued.

I kindly request you to take a few moments to respond to the questions and statements openly, honestly, and independently. Your responses will remain confidential and anonymous, as this research is being conducted solely for academic purposes.

Thank you for your time and participation.

SECTION A: Demographic characteristics

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

A1What is your Gender?

Male		1
Female		2

A2 What's your age bracket?

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

A3 What is your highest Level of education?

Ordinary level certificate		1
Advanced level certificate		2
Diploma		3
Bachelor's degree		4

Master's degree		5
PHD		6
Other, please specify below:		7

A4 Which department are you in?

Credit		1
Finance		2
ICT		3
Marketing		4

5 How long have you been working with DFCU Uganda?

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

Section B: The different credit risk practices used by DFCU Bank Uganda Limite

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)

	***Statements* relating *to* the different credit risk practices used by DFCU Bank Uganda Limited**	**1**	**2**	**3**	**4**	**5**
B1	DFCU Bank has a clearly documented and communicated credit risk policy.					
B2	Credit risk identification is systematically carried out before loan approval.					
B3	Borrower creditworthiness is thoroughly assessed using standardized procedures.					
B4	The bank regularly monitors loan performance to detect early signs of default.					
B5	Collateral requirements are consistently enforced to mitigate credit risk.					
B6	Risk ratings are assigned to borrowers and updated periodically.					
B7	The bank has effective internal controls to manage credit risk exposure.					
B8	Non-performing loans are actively tracked and managed through recovery strategies.					
B9	Credit risk management practices at DFCU Bank contribute to overall financial sustainability.					

Section C: The credit risk management challenges at DFCU Bank Uganda Limited

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**).**

	Statements relating to the credit risk management challenges at DFCU Bank Uganda Limited.	**1**	**2**	**3**	**4**	**5**
C1	Weak credit monitoring systems contribute to loan defaults.					
C2	Inadequate borrower assessment increases the risk of non-performing loans.					
C3	Ineffective loan recovery procedures hinder financial performance.					
C4	Economic downturns negatively affect borrowers' repayment capacity.					
C5	Limited diversification of loan portfolios exposes the bank to higher risk.					
C6	Insufficient collateral valuation contributes to poor loan recovery.					
C7	Delays in financial reporting weaken credit risk monitoring.					
C8	Lack of separation between loan approval and loan review reduces objectivity.					
C9	Inadequate documentation and customer agreements increase credit risk exposure.					
C10	Regulatory and compliance challenges affect the effectiveness of credit risk management.					

Section D: Strategies for improving credit risk management at DFCU Bank Uganda Limited

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).

	Statements relating to improving credit risk management at DFCU Bank Uganda Limited.	**1**	**2**	**3**	**4**	**5**
D1	Strengthening borrower assessment procedures will reduce loan defaults.					
D2	Enhancing collateral valuation processes will improve loan recovery.					
D3	Regular training of credit officers will improve risk management effectiveness.					
D4	Implementing stricter credit monitoring systems will enhance portfolio performance.					

D5	Expanding loan portfolio diversification will reduce exposure to sector-specific risks.					
D6	Standardizing loan documentation and agreements will minimize credit risk exposure.					
D7	Strengthening internal controls will improve compliance and reduce operational risks.					
D8	Incorporating modern credit scoring techniques will enhance borrower evaluation.					
D9	Increasing transparency and communication with borrowers will improve repayment performance.					
D10	Aligning credit risk strategies with regulatory requirements will strengthen financial sustainability.					

Interview Guide for DFCU managers and department heads

i) **Self-Introductions**: Researcher and Respondent

The purpose of the interview is to gather views on "***Assessment of the Credit Practices at DFCU Bank Uganda Limited***".

(ii) Demographic characteristics

Designation of interviewee

……

Place of Interview…… Time……

Can you tell me briefly about yourself.....(Probes for age, education, duration of service of the interviewee etc)

Guiding Questions

Section A: General Background

1. Can you briefly describe your role and responsibilities at DFCU Bank?
2. How long have you worked in this position, and what has been your experience with credit risk management?

Section B: Credit Risk Practices

3. What credit risk management practices are currently in place at DFCU Bank?
4. How does the bank identify and assess potential credit risks before loan approval?
5. What monitoring mechanisms are used to track loan performance and borrower repayment behavior?
6. How effective are collateral requirements and borrower risk ratings in reducing defaults?
7. In your view, how do these practices contribute to the overall sustainability of the bank?

Section C: Credit Risk Management Challenges

8. What are the main challenges DFCU Bank faces in managing credit risk?
9. How do economic conditions (e.g., inflation, downturns) affect loan repayment performance?
10. What internal weaknesses (e.g., monitoring, documentation, reporting) hinder effective credit risk management?
11. How does regulatory compliance influence the bank's ability to manage credit risk?

Section D: Strategies for Improvement

12. What strategies do you think could strengthen credit risk management at DFCU Bank?
13. How important is staff training and capacity building in improving credit risk practices?
14. What role does technology (e.g., credit scoring systems, data analytics) play in enhancing risk management?
15. How can borrower engagement and transparency improve loan repayment performance?
16. In your opinion, what long-term measures should DFCU adopt to reduce non-performing loans and improve portfolio performance?