CREDIT RISK MANAGEMENT AND LOAN PERFORMANCE OF COMMERCIAL BANKS IN UGANDA: A CASE OF DFCU BANK JINJA ROAD BRANCH

DERICK BASAZA NDUWAYO

S23B05/137

A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY

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UGANDA CHRISTIAN UNIVERSITY
A Centre of Excellence in the Heart of Africa

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JANUARY, 2026

DECLARATION

I Nduwayo Derick Basaza declare that this research report is my own work and has never been presented to any other university or institution of higher learning for an academic award.

Signature:.......................

Date:..15/04/2026..

APPROVAL

This is to certify that this research report has been submitted with my approval as the supervisor.

Signature:....................

Natuhwera Maureen

Date: 15/04/2026

ACKNOWLEDGEMENT

I want to express my gratitude to the Almighty God for giving me life and for guiding me along my academic journey; it has not always been simple, but it has been possible. My supervisor, Ms. Maureen Natuhwera, has my sincere gratitude for all of her hard work and knowledge that she provided to me when I was under her supervision.

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May God bless everyone.

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ABSTRACT

The study focused on how credit risk management affected the lending performance of Ugandan commercial banks and in particular DFCU bank jinja Rd, Uganda. To be more precise, it looked at how credit risk identification and loan performance are related, how credit risk assessment and loan performance are related, and how credit monitoring and loan performance relate to DFCU Bank in Uganda.

In addition to using both quantitative and qualitative research methods, the study was conducted using a cross sectional study design. Both basic random and selective sampling techniques were applied during the data gathering process, which involved the use of questionnaires and interviews. The study also employed a sample size of 44 respondents who work for DFCU Bank Jinja Rd and the bank's upper management.

From the results of the research, it can be deduced that the methods used for credit risk management, specifically, credit risk identification, credit risk assessment, and credit risk monitoring at DFCU Bank (Jinja Rd Branch) have an immense positive impact on loan performance. As per the Pearson correlation coefficients obtained during the test of relationship between variables, credit risk identification had a correlation coefficient value of 0.672, credit risk assessment had 0.596, and credit risk monitoring had 0.654.

Finally, the study recommended that DFCU Bank, Jinja rd branch, strengthen credit risk identification with advanced tools, maintain updated credit assessment guidelines, enhance continuous credit monitoring, provide regular staff training on modern risk management techniques and adopt risk-based client categorization to improve repayment rates, reduce defaults and sustain financial stability.

CHAPTER ONE INTRODUCTION

1.0 Introduction

The study examined how credit risk management affected Ugandan commercial banks' loan performance using DFCU Bank as a case study Jinja Rd. Background information, problem statement, study purpose, study objectives, research questions, study scope, study significance, and conceptual framework are all presented in this chapter.

1.1 Background of the study

Credit risk management is a fundamental function of commercial banking operations as it determines the ability of the banks to sustain profitability and lower the possibilities of default on the part of the borrowers (Siddique et al., 2022). The competitive and evolving banking environment requires financial institutions to accurately measure and manage credit exposures in order to avoid asset quality impairments (Al Zaidanin & Al Zaidanin, 2021). To this end, poor credit risk management can lead to increased non-performing loans (NPLs), reduced capital adequacy, and ultimate financial instability (Fadun & Silwimba, 2023). Therefore, effective credit risk management practices such as screening of borrowers, loan monitoring, and collateral assessment are essential to sustaining loan performance and financial soundness (Addy et al., 2024).

Commercial banks are exposed to credit risks the most due to their financial intermediation role of transforming deposits into loans (Nguyen, 2023). With increased competition and diversification of loan products, managing credit risk has grown more complex and strategic in planning (Harb et al., 2023). The inability to manage credit risks effectively has been known to cause serious financial disasters in the past, stressing the importance of having robust strategies for assessing, reducing, and managing loan risks (Ramjali, 2024). Loan performance has an enormous impact on the profitability, liquidity, and stability of banks, meaning that credit risk management strategies have a direct influence on their operational sustainability (Aduda & Obondy, 2021).

Across the globe, many countries have devised sophisticated ways of enhancing credit risk management and loan performance (Addy et al., 2024). In the USA, the financial crisis of 2008 brought about an urgent need for the implementation of risk assessment measures, which resulted in stricter lending regulations and stress testing procedures (Orichom & Omeke, 2021).

For instance, some European countries such as Germany and the United Kingdom have implemented the risk-based capital approach based on Basel III in their credit portfolio management practices (Barugahare, 2023). In Asia, countries including Vietnam and Nepal have been compelled to adopt credit evaluation tools and borrower profiling systems due to the rising number of NPLs and to improve their financial performance (Olobo et al., 2021). Notwithstanding their distinct economic backgrounds, all these countries appreciate the importance of mitigating credit risks, which can help protect financial institutions and build the trust of their customers (Agaba, 2022).

Credit risk management is still an emerging practice, especially following the increasing rate of defaults and economic instability within Africa. Research conducted in Ghana has established that ineffective credit assessment and inefficient monitoring of loans by banks are critical determinants of loan performance (Kwashie et al., 2022). The implementation of digitalized credit management in Kenya and Nigeria has introduced new models of managing risk, although credit data reliability and borrower creditworthiness remain questionable (Owomugisha, 2022). In Sub-Saharan Africa, risk management strategies for South Sudan and Tanzania have seen success, although political instability and weak regulatory practices still pose major risks to loan performance (Mwakujonga & Komba, 2024). Credit risk management is thus increasingly perceived as necessary for sustainable banking and economic growth, which cannot be realized without effective risk management practices (Temba et al., 2024).

Credit risk management is among the determinants of commercial bank performance in Uganda. There has been a combination trend in the banking sector’s loan performance. This has been brought about by macroeconomic shocks, policy reforms, and institutional inefficiencies (Bakashaba et al., 2022). DFCU Bank that belongs to the DFCU group operates in this highly regulated yet competitive setup where loan performance is critical for profitability and survival (Nandera, 2022). Numerous empirical research conducted in Uganda concluded that credit risk management practices such as the evaluation of the creditworthiness of customers, loan portfolio diversification, and effective loan recovery mechanisms in place play a basic

function in reducing NPL ratios (Sowedi et al., 2024). Specifically in DFCU Bank Jinja rd branch, an understanding of the connection between credit risk controls and the performance of loans can give perspective to improved operating strategies and financial resilience building (Ayebazibwe, 2023).

1.2 Problem statement

Ideally, commercial banks should achieve strong loan performance through effective credit risk management practices such as risk identification, assessment, and monitoring (Agaba, 2022). However, in Uganda, loan performance has deteriorated despite these efforts. According to the Bank of Uganda Annual Supervision Report (2023), the non-performing loan (NPL) ratio rose from 4.7% in 2021 to 6.0% in 2022. In addition, at DFCU Bank Uganda, the loan repayment rate declined from 89% in 2021 to 76% in 2022, while the NPL ratio rose from 5.2% to 7.8% (Ayebazibwe, 2023). The loan recovery rate also fell from 68% in 2020 to 53% in 2022, and portfolio at risk increased from 4.5% to 7.1% (Sowedi et al., 2024). If not sorted out, the above tendencies may lead to an increase in loan losses and decreased stability in banks. Despite efforts by relevant parties such as the Bank of Uganda and Uganda Bankers Association, the issue persists (BoU, 2023).

Moreover, past literature carried out by researchers such as Al Zaidanin & Al Zaidanin (2021) has predominantly centered around the overall financial performance, profitability, or macroeconomic impacts of credit risk within varying settings. For instance, Nguyen (2023) considered the credit risk of Vietnam, whereas Ramjali (2024) looked into its profitability consequences in Nepal. On the other hand, Nandera (2022) investigated credit risk management in Uganda without singling out aspects of loan performance such as repayment rate, recovery rate, and portfolio at risk. Additionally, Owomugisha (2022) highlighted Centenary Bank in Kabale; however, very little empirical research has been done on DFCU Bank. This created a contextual and methodological gap which this study sought to fill by examining how credit risk management affects loan performance in DFCU Bank, Uganda.

1.3 Purpose of the study

This study looked at how credit risk management affected the loan performance of Ugandan commercial banks, with a particular emphasis on DFCU Bank Jinja Rd branch

Objectives of the study

i. To examine the relationship between credit risk identification and loan performance in DFCU Bank, Uganda.

ii. To establish the relationship between credit risk assessment and loan performance in DFCU Bank, Uganda. iii. To examine the relationship between credit monitoring and loan performance in DFCU Bank, Uganda.

1.4 Research questions

i. What is the relationship between credit risk identification and loan performance in DFCU Bank, Uganda?
ii. What is the relationship between credit risk assessment and loan performance in DFCU Bank, Uganda? iii. What is the relationship between credit monitoring and loan performance in DFCU Bank, Uganda?

1.5 Scope of the study

1.5.1 Content Scope

The study was specifically limited to; examining the relationship between credit risk identification and loan performance, establishing the relationship between credit risk assessment and loan performance, and exploring the relationship between credit monitoring and loan performance in DFCU Bank, Uganda.

1.5.2 Time scope

The review of reports and documents covered a period of five years, from 2020 to 2024. This timeframe allowed for a comprehensive analysis of recent trends and patterns in credit risk management and their influence on loan performance at DFCU Bank, Jinja rd branch.

1.5.3 Geographical scope

This study was carried out in DFCU Bank, Jinja rd branch, located along Jinja Road, Plot 4A, Kampala District, Uganda. DFCU Bank was selected because it has experienced noticeable challenges in loan performance, particularly in areas such as loan repayment rates, non-performing loan ratios, loan recovery rates, and portfolio at risk (Bank of Uganda Supervision Report, 2023/24).

1.6 Justification of the study

The justification behind this study arouse from the growing desire among commercial banks in Uganda to pursue poor loan performance despite having credit risk management practices. While previous strategies such as those by Nandera (2022) target overall profitability alongside credit risk management, there is no direct mention of the effect of credit risk identification, assessment, and monitoring on the key loan performance ratios including repayment rate, non-performing loan ratio, loan recovery rate, and portfolio at risk, particularly in the context of DFCU Bank Jinja rd branch. This study, thus, sought to fill such context and empirical gap by providing concrete findings that can inform more effective credit risk strategies and enhance the financial health of Uganda commercial banks.

1.7 Significance of the study

The study will be significant to commercial banks as it will provide insights into how credit risk management practices directly influence loan performance, enabling them to adopt more effective strategies for minimizing loan defaults and improving loan recovery rates.

This study is going to be important for the Bank of Uganda since it will provide evidence-based results, which can be used to improve regulatory control, credit risk management, and policy changes meant to enhance asset quality within the financial sector.

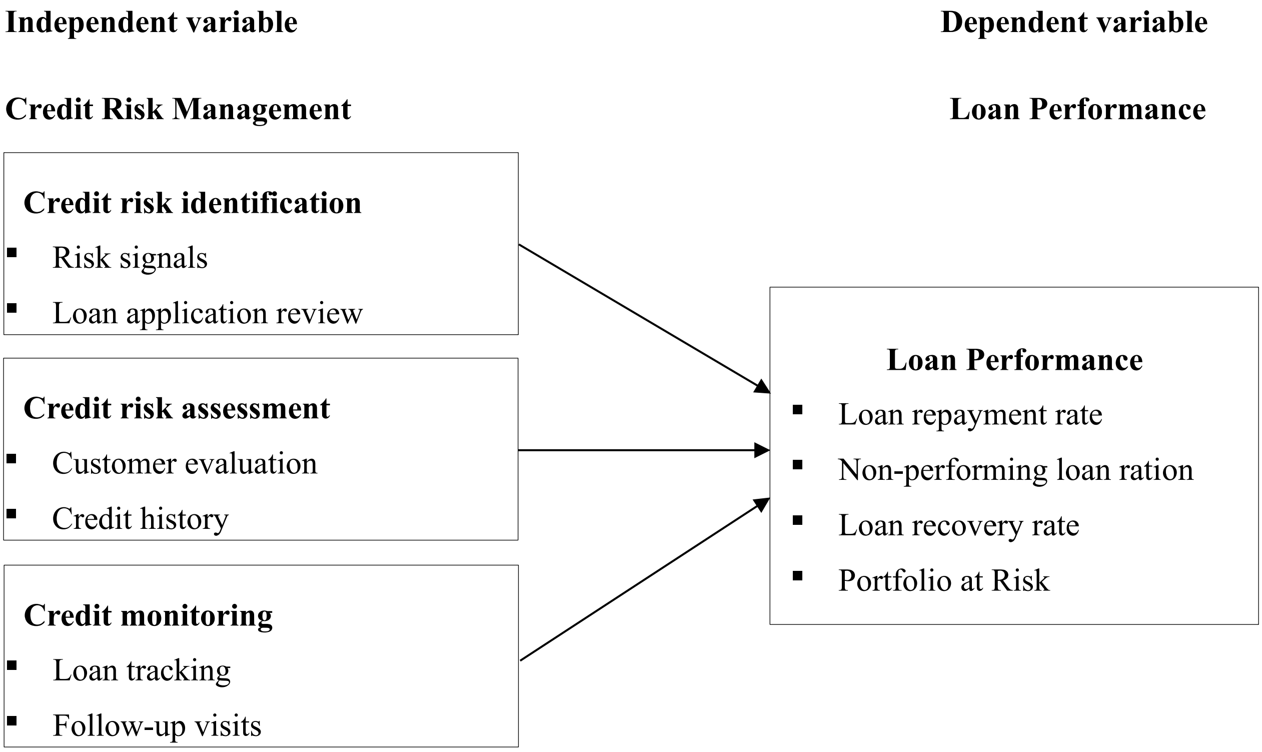
This study is going to be very important for the bank managers and credit officers, since it will help them to detect weaknesses in their processes of risk identification, assessment, and monitoring, and hence make better decisions on lending and recoveries.

It is expected to be valuable to policymakers by offering empirical evidence that could be used in developing or improving upon the formulation of credit risk strategies intended to enhance financial stability and decrease non-performing loans in Uganda's banking sector.

The study will be important to scholars and future researchers since it adds to the body of information on loan performance and credit risk management. It will also serve as a foundation and point of reference for future research in similar fields both inside and outside of Uganda.

1.8 Conceptual framework

Figure 1: Conceptual Framework



Source: *Adopted from, Thanh & Quang (2022) and modified by the researcher (2024)*

This study's conceptual framework investigates the connection between commercial banks' loan performance and credit risk management. The independent variable, credit risk management, includes credit risk monitoring (by regularly visiting and monitoring loans), credit risk assessment (by analyzing the customer and credit history), and credit risk identification (by looking at loan applications and warning signs). The dependent variable loan performance, as determined by the loan recovery rate, non-performing loan ratio, loan repayment rate, and portfolio at risk, must be directly impacted by these activities. Improved recovery, fewer defaults, and lower risk exposure are all ways that good credit risk management must improve loan performance.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter offers an examination of pertinent studies by a number of academics in addition to the opinions of other researchers regarding the impact of credit risk management on commercial banks' loan performance. The primary objective of this literature review is to determine what has been done and what has not been done in this field of study. As a result, study-related books, periodicals, encyclopedias, and newspaper articles were employed as sources.

2.1 Conceptual review

2.1.1 Credit risk management

Financial institutions employ credit risk management techniques and protocols to identify, assess, track, and manage the potential for a borrower to default on a loan. According to Siddique et al. (2022), proactive borrower risk detection and mitigation are crucial, and credit risk management is seen as a key factor in a bank's stability and profitability. Al Zaidanin and Al Zaidanin (2021), however, argue that credit risk management is not just about minimization of risk but also about optimizing credit portfolios for sustainable returns. While both perspectives agree on the management of default risk by borrowers, they seem to look at it differently one from the lens of risk minimization and the other from balanced risk-taking. Fadun and Silwimba (2023) also support this dual role in the sense that credit risk management should not only protect bank assets but also generate revenue growth strategically.

Scholars have also debated the factors and dimensions of credit risk management measurement. For example, Olobo et al. (2021) cite credit risk identification, credit analysis, and ongoing loan monitoring as crucial dimensions, noting that failure in any of these leads to mounting non- performing loans. Kwashie et al. (2022) agree with these dimensions but include the role of internal control systems and staff capacity as being part of effective credit management. Aduda and Obondy (2021), on the other hand, have a broader framework that includes regulatory compliance and client relationship management and argue that the regulatory environment to a great extent dictates credit risk outcomes. The frameworks thus highlight the complexity associated with credit risk management. The priorities accorded to institutional and contextual variables differ from scholar to scholar.

In addition, different countries have operationalized credit risk management differently through their research works, showing that there are differences between literature and practice in the field. For example, Nguyen (2023) in Vietnam has operationalized credit risk management using credit scoring, loan follow up, and recovery, whereas Ramjali (2024) in Nepal has operationalized credit risk management using customer screening and collateral assessment. Moreover, in Uganda, Agaba (2022) has been involved in credit risk identification, assessment, and control, whereas Owomugisha (2022) has been involved in loan monitoring and recovery. However, in all these cases, the interrelationships between these factors have not been captured since they influence the performance of the loan. Therefore, this study aims at making a contribution to the existing literature by integrating credit risk identification, credit assessment, and credit monitoring.

2.1.2 Performace of loans

The concept of Credit Risk Management (CRM) is well recognized internationally as a significant endeavor for banks and other financial firms where the main objective is to minimize the risks of default by borrowers while ensuring the stability of the credit portfolio. According to Harb et al., CRM is described as a process that involves identifying, measuring, and managing credit risks involved with credit activities in highly risky economic conditions. However, Addy et al. emphasize that predictive analytics play an important role in credit risk management since modern models based on information and data make the decision-making process more objective.

Various researchers have offered various dimensions on which CRM can be evaluated. For instance, Temba et al. (2024) propose three key dimensions for measuring CRM. These include identifying credit risk, assessing credit risk, and monitoring credit risk. According to the authors, all three dimensions have a considerable effect on reducing defaults and improving bank profits. Likewise, Barugahare (2023) suggests evaluating risks, customer vetting, and follow-up actions as the key aspects of an efficient credit risk framework. However, according to Mwakujonga and Komba (2024), CRM should include not only issuing credit but also following up after releasing credit. This implies that while there is no debate on the significance of CRM, its implementation is subject to contextual factors.

Furthermore, the influence of non-credit risk management on organizational performance has also been studied in different regional setups, where there are variations in terms of effectiveness and achievements. For example, Nandera (2022) noted that the use of unconventional credit assessment methods and inadequate internal controls at Ugandan banks were major causes behind the low performance of loans. Likewise, Ayebazibwe (2023) established that the inefficiency of surveillance and follow-up activities had considerably increased the rate of nonperforming loans in Standard Chartered Bank, Kampala. Sowedi et al. (2024) maintain that although there might be CRM models available, implementation issues like under-trained employees or negligence reduce their effectiveness. This serves to prove that CRM is a universal concept; however, its success depends greatly on institutional capability, regulatory compliance, and proper risk control.

2.2 Review of empirical research of the objectives of the research

2.2.1 Association between identification of credit risk and loan performance

In his study, Harb et al. (2023), examined risk management strategies employed by banks in the MENA region, and came to the conclusion that timely identification of credit risk had a substantial impact on the quality of loan portfolios of banks. Specifically, they stated that banks using formal systems for analysis of borrowers' financial conditions, and early warning systems showed better loan recovery, and less cases of bad loans. On similar lines, Addy et al. (2024) cited the use of predictive analytics in identifying early warning signs, and stated that those banks adopting predictive analytics performed better in terms of repayment of loans. Thus, while both studies validate the relationship between identification of credit risk and loan performance, there is a difference between both studies in terms of their orientation. Where, the former study relies on qualitative systems, the latter one is based on technological solutions.

In their study carried out in Tanzania, Mwakujonga and Komba (2024) investigated the effect of credit risk assessment techniques used by the microfinance institutions in the country on the success rate of loans. It was found that failure to carry out borrower screening and documentation leads to high non-performing loans and low repayment rates. In a similar study done in Uganda, Bakashaba et al. (2022) established that the failure to monitor risk signals, such as failing to take into account the variation in the clients' cash flows and payment history, was directly linked to increasing loan default rates. While the two studies support the significance of credit risk assessment, they have exposed institutional constraints such as inadequacy of staff and delay in collecting data as major barriers.

Nandera (2022) conducted research on the effect of credit risk identification in commercial banks in Uganda, where it was evident that poor verification of customers and weak risk profiling was a determinant factor for underperforming loans. According to the researcher, poor identification of warning signals in the application period would lead to loan issuance to risky customers; therefore, high write-offs. On his part, in an observation of Standard Chartered Bank Kampala branch, Ayebazibwe (2023) concluded that poor identification of discrepancy in the client documentation and using assumptions rather than thorough background verification contributed to low portfolio quality and recoveries. Although the two studies took place within Uganda's context, their findings conform to global findings about the significance of early credit risk identification in the performance of loans.

The authors Sowedi et al. (2024) carried out research comparing credit risk management practices among selected commercial banks in Uganda and found that the banks with formalized credit evaluation processes involving identity verification and loan screening performed well on repayments and default occurrences. The study also quoted that risk identification at the loan origination stage was more effective when credit officers underwent training in financial analysis and borrower assessment. Likewise, Barugahare (2023) examined microfinance institutions and found that the detection of risk patterns such as client over-indebtedness at an early stage significantly reduced loan write-offs. The study differs in institutional coverage commercial vs. microfinance but both show that risk detection at the earliest phase of the credit process plays a key part in the performance of loans.

Orichom and Omeke (2021) investigated credit risk identification in Ugandan microfinance institutions and concluded that poor risk profiling and ineffective internal controls were to blame for high default rates on loans and poor portfolio performance. This was supported by Al Zaidanin and Al Zaidanin (2021), who confirmed the same trends in UAE banks, where lenient credit assessment at the application stage had led to a rise in non-performing loans. Despite the difference in the settings, the inference is the same; namely, credit risk identification should receive top priority and adequate resources should be assigned to reduce credit risk. In both cases, the authors have suggested that proper client screening and better information integration are important to improve lending decision-making.

2.2.2 Link between credit risk assessment and performance of loans

From the study carried out by Ayebazibwe (2023) on Standard Chartered Bank Kampala, it was clear that there was an efficient process of credit risk evaluation whereby there was efficient analysis of the credit history of the borrower and the stability of the finances. According to Ayebazibwe, the poorer and inefficient process of credit risk evaluation leads to many defaults and non-performing loans. On the other hand, from Nandera's (2022) doctoral study conducted among commercial banks of Uganda, it was revealed that banks adopting systematic processes of credit scoring and efficient client screening techniques were able to have high-quality portfolios and minimized at-risk portfolios. These two studies reinforce the fact that credit risk assessment plays a crucial role in determining the probability of a default and poor credit risk assessment leads to poor loan portfolio quality. However, Ayebazibwe (2023) emphasized that constant training of the credit officers is essential, whereas Nandera (2022) stressed the use of digital technologies for credit scoring.

According to Barugahare (2023), credit risk evaluation practices such as employment status, income validation, and history of payment of past loans had a positive correlation with better recovery of loans in Uganda. Thus, the researcher concludes that lack of proper risk evaluation mechanisms makes an organization prone to credit loss. On the other hand, Temba et al. (2024) carried out research among Tanzanian commercial banks and found that poor credit evaluation practices, especially for small and medium enterprises (SMEs), resulted in overestimation of credit risks, hence defaults. Although both studies advocate for the use of evaluation tools, Barugahare (2023) emphasizes the need for personal data, whereas Temba et al. (2024) highlight the need for process improvements within the organization.

According to Bakashaba et al. (2022), commercial banks in Kampala that adopted sound credit assessment techniques like risk classification models and detailed financial due diligence recorded less loan losses and higher loan efficiency. Such banks witnessed an improvement in their recovery rates by 20% to 30% within a period of two years. On the other hand, those banks that applied manual or random client assessments had greater percentages of bad loans. In a similar study, Ramjali (2024) analyzed the Nepalese banks and established that differences in the implementation of credit appraisal guidelines led to an overstatement of the client's risk levels, which increased the amount of bad loans and decreased the loan portfolio. Based on the results from both studies, it is clear that the use of systematic and automated assessment tools reduces subjective opinions and ensures sound loan decisions.

Also, Aduda & Obondy (2021) had conducted studies in relation to Savings and Credit Cooperative Societies (SACCOs). According to their findings, successful loan repayments were highly dependent upon full credit risk analysis and particularly on borrowing analysis and the assessment of credit history. Those SACCOs having updated analysis criteria were seen performing poorly in terms of defaults, according to the research. Moreover, a similar case could be made by taking into account the findings by Nguyen (2023). In his study related to Vietnamese commercial banks, it was observed that banks with high-level credit risk analytics were able to do quite well in respect of loan repayments and avoided credit losses.

Sowedi et al. (2024) estimated some commercial banks in Uganda and observed that commercial banks with effective customer appraisals involving collateral evaluation, income stability, and credit risk were likely to achieve better loan recoveries and have lower instances of loan restructuring. According to Sowedi et al. (2024), each time the customer appraisal was either shallow or skipped because of the need to issue loans, the banks ended up having an elevated level of portfolios at risk. On a similar note, Addy et al. (2024) emphasized the use of predictive analytics in credit analysis to illustrate the role played by artificial intelligence in enhancing the accuracy rate in identifying risky clients. The two studies indicate that proper assessment helps protect banks from defaults and build healthy relationships between borrowers and banks.

2.2.3 Link between monitoring credit and performance of loans

In the study by Orichom & Omeke (2021), the role played by the frequency of monitoring on the loan performance was evaluated for microfinance institutions in Uganda. It was revealed that there were substantial low default rates for microfinance institutions that frequently monitored their borrowers' payments, interaction with the borrowers, and frequently reviewed the repayment schedule. This outcome is consistent with the study conducted by Bakashaba et al. (2022) where the relationship between monitoring and loan recovery was examined among commercial banks within Kampala District. The study revealed that effective monitoring after loan disbursement, including telephone follow-up and home visits to borrowers, led to higher loan recovery rates. While Orichom & Omeke focused on structural monitoring methods, Bakashaba et al. considered interpersonal methods.

According to Harb et al. (2023), the adoption of an active monitoring process in the MENA region minimized the number of loans classified as non-performing. As stated in the paper, it was observed that banks which had adopted the use of real-time monitoring mechanisms on their borrower's accounts were able to receive early warning signals in time. This trend is reflected in the work conducted by Nguyen (2023), wherein Vietnamese commercial banks with automation monitoring systems were better placed in managing loan portfolios with high risk potential because of their ability to take timely measures.

A literature review on SACCOs by Aduda and Obondy (2021) indicated that inadequacy of loan monitoring practices was one of the leading factors that had contributed to increasing incidences of loan defaults. As found in the study, SACCOs without loan utilization monitoring and followup payment restoration faced higher risks. In line with this observation, Mwakujonga and Komba (2024), through their study in Tanzania, identified that microfinance organizations with poor monitoring mechanisms exhibited higher incidences of loans being in arrears. This was because of the inadequate borrower interactions and portfolio monitoring practices. It can therefore be concluded that loan monitoring processes are essential, particularly for institutions dealing with low-income or informal clients.

Addy et al. (2024) demonstrated the potential of using predictive analytics to enhance credit monitoring by highlighting how alerts generated from data could help lending organizations spot high-risk individuals even before defaulting. According to their conclusion, banks that employed predictive analysis and used data on present-day transactions and payment trends were likely to have healthier credit portfolios with fewer defaults. Conversely, Barugahare (2023) examined the Ugandan microfinance sector and concluded that none of the organizations had developed the necessary technology to support real-time credit monitoring, which would imply that their interventions were reactive rather than proactive. In both cases, modern computer-based analytics and manual monitoring serve as the basis for comparison.

A similar finding was made by Temba et al. (2024) in their study done in Tanzania where they discovered that banks which had routine borrower reviews, audit visits, and compliance had high repayment levels, and there were few instances of restructurings. They explained that constant interactions with the borrowers after lending made the borrowers have a sense of accountability. Also, Ayebazibwe (2023) found out that repayment-oriented monitoring such as reminders, phone calls, and visits improved repayment behaviors of the clients of Standard Chartered Bank Uganda. The findings in both studies reveal a clear link between human and automated monitoring techniques and improved loan performance.

2.3 Research/ Literature Gap

The empirical literature reviewed above identifies several areas of research that need to be further explored. In general, even though it is commonly understood that the identification, evaluation, and monitoring of credit risks play an important role in determining the outcome of the loan process, almost all empirical studies only focus on testing the impact of these factors individually in commercial banks and microfinance institutions without any comparative conclusion made. Furthermore, even though there are studies that have focused on technologybased approaches such as predictive analytics, there are few studies examining the practical application of such technological innovations in resource poor financial institutions.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter outlines the research approach that was employed. It explained the methodology used for this investigation. It covers the study population, sample size calculation, data sources, study design, and study setting. Additionally, it explains the study's limits, ethical considerations, sampling techniques, study variables, data gathering methods and tools, data processing, quality control measures, data analysis, and validity and reliability of data collection tools.

3.1 Research design

The research design used in this study was a cross-sectional survey, which gathers information from participants all at once without further follow-up (Hunziker & Blankenagel, 2024). This methodology is suitable because it allows the researcher to effectively evaluate, while taking time and budgetary restrictions into account, the relationship between loan performance and credit risk management methods at the DFCU Bank, Jinja Rd branch. It facilitates the capturing of current practices, perceptions, and trends regarding credit risk identification, assessment, and monitoring, and their effect on loan repayment rates and non-performing loan ratios during the data collection period (Maier et al., 2023).

In order to ensure a comprehensive understanding of the subject matter under investigation, the study utilized a mixed-method approach that incorporated both quantitative and qualitative methods of research (Hodge, 2020). The quantitative method entailed administering questionnaires that were designed using a structured format among the chosen credit officers, risk analysts, and loan recovery agents in DFCU Bank. The quantitative method provided numeric data that could be subjected to statistical analysis to evaluate the influence of particular credit risk strategies on loan performance parameters such as portfolio at risk and loan recovery (Fischer et al., 2023).

However, the qualitative element helped to supplement the quantitative data through providing deeper insight about institutional and operational aspects. This included conducting semistructured interviews with key informants like the branch manager, credit manager, and risk assessment managers in DFCU Bank, Jinja Rd branch (Phillips, 2023). These interviews explored how credit risk management systems are designed, implemented, and perceived by practitioners. They also revealed the challenges faced in ensuring effective risk mitigation and how these issues influence loan default levels and overall financial performance of the bank (Wieland et al., 2024).

3.2 Study area and population

The study was carried out in DFCU Bank, Jinja Rd branch, located along Jinja Road, Plot 4A, Kampala District, Uganda. DFCU Bank was selected because it has experienced noticeable challenges in loan performance, particularly in areas such as loan repayment rates, non-performing loan ratios, loan recovery rates, and portfolio at risk (Bank of Uganda Supervision Report, 2023/24). The study population therefore included employees from the different departments in DFCU Bank, Jinja Rd branch. According to the HRM Centenary Bank Uganda Ltd, as of 2025, the bank has 580 employees from its various branches across the country.
Nonetheless, the study will comprise 50 individuals from various departments inside the DFCU Bank, Jinja Rd branch, including management, sales, marketing, finance, human resources, and information technology. These employees will be the study's target demographic. The study population also had five key informants, all of whom are the management of the DFCU Bank branch in Kampala Jinja Rd.

3.3 Sample size determination

Katamba and Nsubuga (2014) define sample size as the percentage or subset of the entire population. Using Taro Yamane's (1970) sample calculation formula, the sample size was ascertained as follows;

$N\ n = 1\rule{2cm}{0.4pt} + N(e)_2$

"n" is sample size, "N" is population, "e" is error (0.05) or level of confidence 95%

"N" (population) = 50 employees from the different departments in DFCU Bank, Jinja Rd branch. $n = \frac{50}{1 + 50(0.05)^2}$

$$n = \frac{50}{1 + 50(0.0025)}$$

$$n = \frac{50}{1 + (0.125)}$$

$$n = \frac{50}{1.125}$$

n = 44 employees from the different departments in DFCU Bank, Jinja Rd branch.

Accordingly, 44 respondents who work in various departments at the DFCU Bank Jinja Rd branch in Kampala made up the sample size, as determined by the sample size calculation above.

3.3.1 Selection of Participants for qualitative data collection

Five top management department officials from DFCU Bank's Jinja Rd branch, including the branch manager, credit manager, and risk assessment officers, were specifically chosen because they are directly involved in creating, carrying out, and overseeing the bank's credit risk management procedures and policies. These professionals were crucial for providing insight on how credit risks are managed, what difficulties arise, and how such processes impact the performance of loans.

3.4 Sampling techniques and procedure

Simple random sampling was used to select 44 participants out of the many departments of the DFCU bank located in Kampala. Simple random sampling ensured that there was no bias while selecting the sample because each participant had an equal opportunity of being selected. Human Resources department of DFCU bank Jinja road branch provided me with the employee list that I used to select my sample.

Moreover, five senior managers from the DFCU Bank, jinja Rd branch were purposely selected, among whom are the branch manager, credit manager, and risk assessment officers. This was because the chosen senior managers played a critical role in the development and implementation of credit risk management policies in the institution. The involvement of these managers made it possible to get a clear picture of how credit risks are managed in the bank and its impact on loans performance.

3.5 Data collection methods

3.5.1 Questionnaires

Questionnaires are a series of well-organized questions aimed at collecting information from respondents, according to Katamba & Nsubuga (2014). Data for the current study was collected from employees of DFCU Bank at Jinja Road branch through closed and open-ended questionnaires. While the closed questions provided choices in answers for ensuring consistency during the analysis of data, open questions allowed the respondents to provide their full views on the impact of credit risk management approaches on loans' performance. Where appropriate, the researcher assisted the respondents in answering questions concerning the internal processes of lending in the organization (Ikart, 2019).

3.5.2 Key Informant Interviews

The key informant interviews involved five major officials from the DFCU Bank Jinja Road branch. These officials included the branch manager, credit manager, and the risk officials. To conduct the interviews, an unstructured interview guide was adopted in order to delve deeper into issues of credit risk identification techniques and their effect on loan performance within the bank. Some of the main themes discussed during the interviews include risk identification, credit evaluation, policy implementation, and loan default management. Unstructured interviews were preferred to questionnaires due to their ability to provide more insights than questionnaires (Taherdoost, 2021).

3.6 Data collection instruments

For data gathering purposes, two types of research instruments were used. These included data gathering guides which are briefly outlined in the sub section to follow.

3.6.1 Questionnaire guide

The main tool for collecting quantitative data from selected employees in various departments of the DFCU Bank Branch on Jinja Rd was through the use of a questionnaire guide. Using this method allows one to reach a large number of respondents within a relatively short period of time. Most of the questions in the questionnaire were closed-ended questions designed specifically to suit the objectives of the research on issues such as loan approval process, credit risk assessment process, and loan performance. The respondents were required to select the option that best describes their experience or perception.

3.6.2 Key informant interview (KII) guide

A key informant interview guide was employed in order to obtain more in-depth information on the identification of credit risk in the DFCU Bank. An interview guide is an appropriate method of collecting information that may not always be visible. In this case, the researcher can control the course of the discussion and delve into the issues emerging from the conversation. Key informant interviews were conducted using the help of five individuals who play a direct role in the implementation of risk management approaches in the bank. These include the branch manager, credit manager, and risk officers.

3.7 The validity and reliabilty of data collection tools

3.7.1 Validity

Validity was considered in order to establish the effectiveness of the questions in collecting the intended information (Sürücü & Maslakçi, 2020). Questions were validated by experts in research to check whether they were able to collect the necessary information from the respondents. The Content Validity Index (CVI) was calculated in order to measure the validity of the research tool. The validity of the instruments used in the research was established by the researcher using the following formula:

Content validity index (CVI) : $CVI = \dfrac{\textit{Relevant items by all judges}}{\text{Total number of items judged}}$

It was established that the questionnaire collected data effectively due to the high CVI of 0.89 compared to the recommended CVI of 0.70 (Duckett, 2021).

3.7.2 Reliability

Reliability, in terms of research, is the consistency, stability, and dependability of the research findings, which reflect the capability of the researcher to repeat the results of a particular study. The coefficient alpha of Cronbach was used to determine the reliability of the survey tool (Mellinger & Hanson, 2020). The reliability test of the survey was done through Statistical Package for the Social Sciences (SPSS) software using the results of the pilot study that involved ten respondents. The computation of the coefficient of alpha was done based on the formula stated below. The value of.91 is greater than the recommended.70 (Duckett, 2021), implying that the survey is appropriate for data collection.

3.8 Procedure of data collection

The researcher acquired an introductory letter from Uganda Christian University, after successfully defending the research proposal. The letter was then handed over to the management of DFCU Bank, Jinja Road branch, seeking their permission to carry out the research. Once permission was granted, the researcher arranged for interviews with some key informants, as well as handing out questionnaires to some of the employees at the bank. Data collection was conducted following the acquisition of informed consent from all subjects.

3.9 Data analysis

3.9.1 Quantitative data analysis

SPSS version 20 was used to examine quantitative data obtained from structured questionnaires. Descriptive statistics, including means, percentages, and frequencies, were produced at the univariate level to provide an overview of the traits of the respondents and their answers. To make these findings easier to understand, tables and bar charts were used (Jopling, 2019). The strength and direction of the link between credit risk detection techniques and loan performance were assessed at the bivariate level using Pearson's correlation coefficient. The 95% confidence interval (p-value < 0.05) was established as the threshold for statistical significance (Skinner, 2020).

3.9.2 Qualitative data analysis

Qualitative data in this study was analyzed using thematic analysis, as outlined by Creswell (2007), to identify patterns and insights from interviews with top management and key informants at DFCU Bank, Jinja Rd branch . The research involved verbatim transcription of audio recorded interviews and analysis of the data based on themes concerning risk identification processes and their effects on lending performance. The themes were categorized to achieve greater insight into the credit risks management process, challenges and best practices at institutions. Verbatim quotations of the respondents were utilized in order to explain certain observations made during the research and provide a more refined view on risk management and lending performance (Ruggiano & Perry, 2019).

3.10 Ethical consideration

Ethics refers to rules that distinguish between what is right or wrong behavior. It is instrumental in determining appropriate and inappropriate behavior (Pietilä et al., 2020). Consequently, the following ethics were adhered to;

Informed consent: Participants were adequately aware of what the study entailed before participating in it. This included giving them the consent forms for voluntary participation and allowing them to withdraw from participation without suffering any penalties.

Confidentiality: High levels of confidentiality were observed regarding the personal information collected in the study. The information would be handled anonymously without being revealed to any third party other than the study team.

Principle of non-maleficence: The study is carried out in a manner that does not cause any harm to the subjects. Any form of emotional or psychological stress was kept to the minimum by using appropriate content and providing necessary help if required.

Informed consent: Participation in the study was fully voluntary, with no pressure from any side. Subjects could terminate their participation at any stage of the study without facing any repercussions.

Anonymity: The identity of participants remained anonymous, with no personal identifiers linked to any responses in the final report. This ensured privacy and protected the identity of individuals involved in the research.

3.11 Limitations and delimitation

Initially, the research tools were not standardized. To create a reliable measurement of the research variables, a validity and reliability test was conducted.

Furthermore, the use of research assistants resulted in irregularities in the time spent administering the questionnaires, the respondents' comprehension of the items, and the explanations provided. The research assistants received orientation and training on the protocols to be followed during data collecting in order to reduce this risk.

Lastly, some questionnaires were not returned, not fully completed, or even recovered because of respondent conditions including illness, hospitalization, travel, or refusal/withdrawal to participate. To prepare for this, the researcher exceeded the minimal sample size in order to reserve more responders. Additionally, the participants were reminded to complete all questions on the surveys and were constantly monitored regarding the retrieval date.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF RESULTS

4.0 Introduction

In this chapter, the findings of the analysis conducted to examine the particular goals of the study and in connection with the examined literature are presented and interpreted. Employees and management from DFCU Bank Jinja Rd branch participated in interviews and completed questionnaires as part of the study. To aid with comprehension and interpretation, the results are displayed using tables and bar graphs.

4.1 Response rate

All forty-four of the surveys that were provided were completed and returned. Therefore, as seen in table 1 below, the questionnaire response rate was 100%;

Table 1

Table 1: Response rate for questionnaires

Response Rate	Sam ple Size	
	Frequency	Percentage (%)
Received	44	100.0%
Non Response	00	0.0%
Expected Response	44	100.0%

Source: *Primary data*

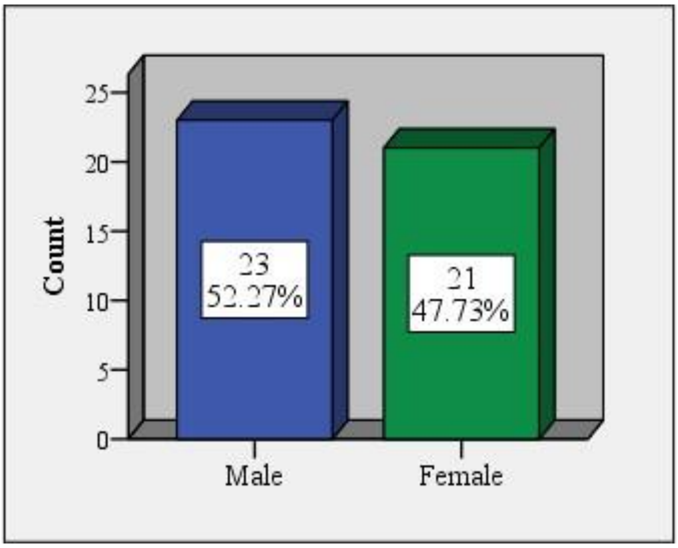
As indicated in table 1 above, a total of 44 (100%) respondents who work show DFCU Bank's kampala branch in various departments were anticipated to complete the questionnaires; all of them did, resulting in a 100% response rate. Given that the researcher had the time to gather the necessary data and that the respondents were keen to participate in the study, the response rate was 100%.

4.2 Findings on demographic characteristics of respondents

4.2.1 Gender of the respondents

The gender distribution of the respondents who work for DFCU Bank-kampala is shown in the image below, and the data is explained below.

Figure 22: Gender



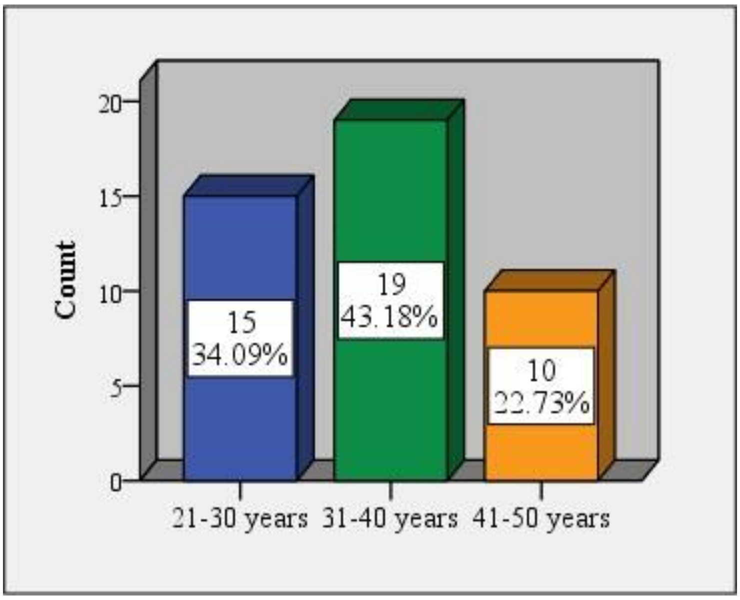
Source: *Primary data*

According to the results in figure 2 above, there were more men than women who responded to this survey since men filled out the majority of the questionnaires (52.3%), while women filled out the remaining 47.7%. Nonetheless, both men and women were included in the poll to obtain a balanced perspective of the responses from various commercial bank employees.

4.2.2 Age of the respondents

The age distribution of the respondents who work for DFCU Bank-kampala is shown in the picture below, and the data is explained further.

Figure 3: Age



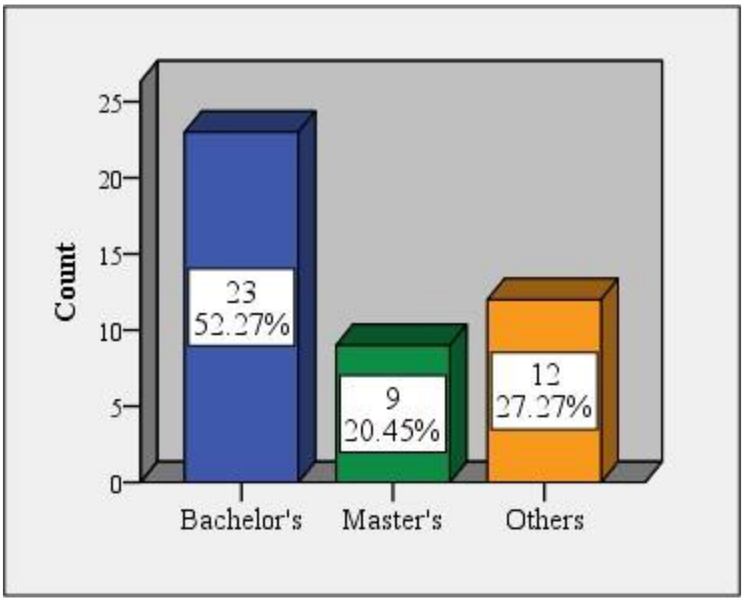
Source: *Primary data*

According to the results in figure 3 above, the great majority of respondents (43.2%) were in the age range of 31–40 years, followed by those in the 21–30 year age range (34.1%), and 22.7% were in the 41–50 year age range. Given that information was gathered from individuals in a variety of age groups, this suggests that there was no age discrimination. Additionally, it demonstrates a balance of new hires and experienced staff, both of which are beneficial to the commercial bank's long-term viability.

4.2.3 Education level of the respondents

The education level of the respondents who work for DFCU Bank-kampala is summarized in the figure below, and the data is interpreted as follows.

Figure 4: Level of education



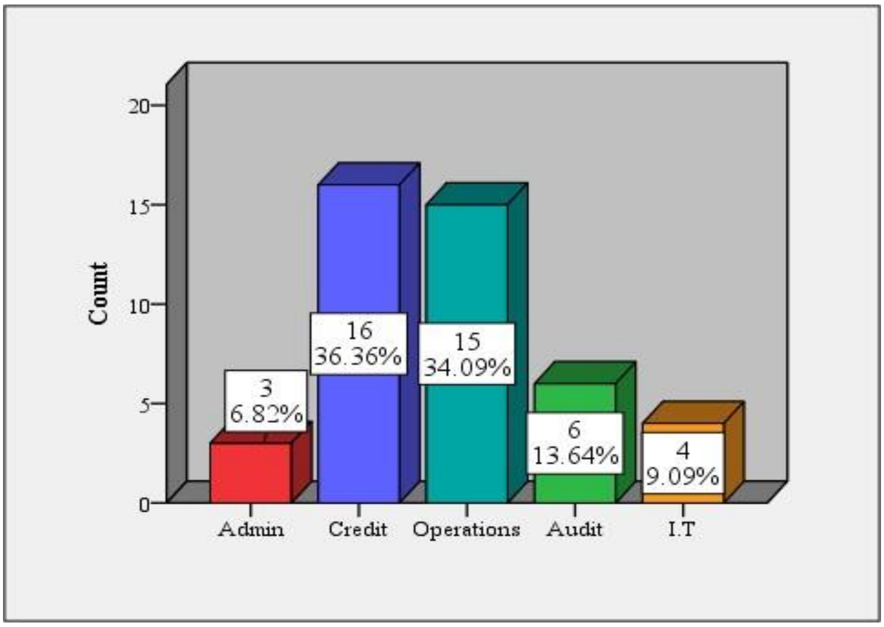
Source: *Primary data*

Employees of DFCU Bank-Jinja Rd branch are highly educated, according to the findings in figure 4 above, as the majority of respondents (52.3%) have bachelor's degrees, followed by 27.3% who have earned additional credentials like ACCA, CPA, and postgraduate diplomas, and 20.4% who stated they have master's degrees. This suggests that because of the type of job that employees are expected to execute, DFCU Bank-Jinja Rd hires highly skilled workers. In order to gather perspectives and opinions from individuals with varying educational backgrounds, the respondents' educational attainment was crucial to this study.

4.2.4 Department respondents belong to

The data in the figure was interpreted below, and it outlines the departments to which the respondents who work for DFCU Bank-Jinja Rd belong.

Figure 5: Department



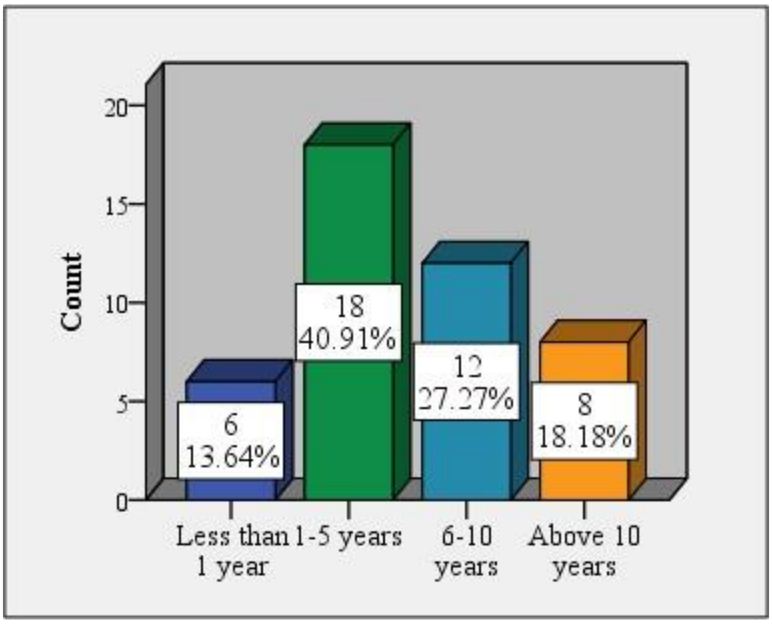
Source: *Primary data*

The results shown in figure 5 above showed that the majority of respondents, or 36.4% of the total population, were from the DFCU Bank credit department, followed by those from the operations department (34.1%), audit department (13.6%), and information technology department (9.1%). The minority, or 6.8% of the total population, was from the administration department of DFCU Bank. This suggests that information was obtained from several divisions inside the commercial bank (DFCU Bank-Jinja Rd branch), which aided in the collection of data and diverse perspectives on the subject at hand.

4.2.5 Period spent working with DFCU Bank- Jinja Rd Branch

The data in the chart was interpreted below, and it provides a summary of the time respondents who work for DFCU Bank-Jinja Rd have been employed there.

Figure 6: Period spent working with DFCU Bank-Jinja Rd Branch



Source: *Primary data*

According to the results in figure 6 above, the majority of respondents, or 40.9%, had worked for DFCU Bank-Jinja Rd for one to five years. Those who had worked there for six to ten years, or 27.3% of the total population, were followed by those who had worked there for more than ten years, or 18.2%. Those who had worked there for less than a year, or 13.6% of the total population, were the minority. Since the majority of respondents have worked with the DFCU bank jinja Rd branch for a reasonable amount of time, the results suggest that the respondents possess the requisite and effective knowledge on the subject matter.

4.3 Relationship between credit risk identification and loan performance in DFCU Bank.

Table 2 uses a Likert scale with SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree), and SD (Strongly Disagree) to summarize respondents' answers regarding the relationship between credit risk identification and loan performance at DFCU BANK, Uganda.

Table 2

Table 2: The relationship between credit risk identification and loan performance in DFCU Bank

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	F (%)	F (%)	F (%)	F (%)	F (%)
DFCU Bank has effective procedures for identifying potential credit risks before loan approval.	19 43.2%	13 29.5%	8 18.2%	2 4.5%	2 4.5%
Early warning signals of borrower default are adequately captured during risk identification.	10 22.7%	20 45.5%	7 15.9%	4 9.1%	3 6.8%
The bank uses reliable tools and techniques to identify credit risks among clients.	10 22.7%	24 54.5%	8 18.2%	2 4.5%	00
Information gathered during risk identification is sufficient to predict borrower repayment ability.	13 29.5%	23 52.3%	3 6.8%	5 11.4%	00
Customer background checks are thoroughly conducted during the credit risk identification stage.	15 34.1%	12 27.3%	13 29.5%	1 2.3%	3 6.8%
Proper credit risk identification has reduced the chances of loan defaults in the bank.	18 40.9%	23 52.3%	3 6.8%	00	00

Source: *Primary data*

Table 2 represents the descriptive statistics on the relationship between credit risk identification and loan performance in DFCU Bank, Uganda. According to study, 93.2% of respondents agreed that proper credit risk identification has reduced the risk of loan defaults in the bank, whereas none disagreed and 6.8% did not know. This indicates that effective credit risk identification is widely accepted to be a significant factor in lowering loan defaults, and that the sustained emphasis on risk identification can enhance overall loan performance.

The findings also indicated that 81.8% of the respondents agreed that information obtained in the process of risk identification is sufficient to predict borrower repayment ability, 11.4% disagreed and 6.8% were uncertain. This reveals that the information obtained in the process of risk identification is usually adequate for making effective lending decisions, which implies improving the quality and breadth of information would further improve the repayment of loans.

In addition, 76.2% of those who responded agreed that the bank employs accurate methods to identify credit risks from their clients, 4.5% disagreed, while 18.2% did not know. This means that people depend on the methods used by the bank to identify risks, thus indicating accurate use of such devices.

Not only that, but the study revealed that 66.8% of the respondents found that there are no issues with customer background checks during the process of identifying risks, with only 9.1% disagreeing with the statement and 29.5% uncertain about their stance. It can be seen that background verification is seen as moderately efficient in this regard, but it is important to note that some do not believe it.

Furthermore, 67.2% of the respondents agreed that early warning signs for default on loans from borrowers are adequately incorporated in the risk identification process, while 15.9% disagreed, and another 15.9% neither agreed nor disagreed. It is clear that there are steps taken by the bank to identify any possible defaults early, but room for improvement exists, implying that improvements in early warning mechanisms would help minimize the non-performance of loans.

Lastly, 72.7% of the respondents agreed that DFCU Bank has effective processes for identifying potential credit risks before granting a loan, with 9% not agreeing and 18.2% uncertain. This shows that the majority of the respondents recognize the presence of formalized risk identification processes, meaning it is important to sustain and enhance these processes for stable loan performance.

Overall, the findings indicate that credit risk identification at DFCU bank Jinja Rd branch, is, overall, effective and positively related to loan performance. Most respondents agreed with all the statements, which show that proper risk identification, use of correct tools, checks on background, and warning systems all contribute to mitigating loan defaults and improving repayment levels. This suggests that further efforts should be made to improve risk identification practices in order to keep the loan book of the bank in good health. The findings of the study concerning the relationship between credit risk identification and loan performance in DFCU Bank, Uganda were further determined using Pearson's correlation that was conducted as shown below;

Table 3

Table 3: Pearson's correlation on credit risk identification and loan performance

Correlations

		Credit risk identification	Loan performance
Credit risk identification	Pearson Correlation	1	.672**
	Sig. (2-tailed)		.000
	N	44	44
Loan performance	Pearson Correlation	.672**	1
	Sig. (2-tailed)	.000	
	N	44	44

**. Correlation is significant at the 0.05 level (2-tailed).

Source: *Primary data*

The findings indicated in table above shows that there is a significant positive relationship between credit risk identification and loan performance in DFCU Bank, Uganda. This relationship is affirmed by (r = .672**, p < .05). This implies that effective credit risk identification significantly enhances loan performance at DFCU bank, indicating that thorough identification of potential credit risks contributes to improved repayment and reduced defaults.

4.3.1 Influence of credit risk identification on loan performance in DFCU

From the interviews conducted with the key informants who are; top officials from the management department in DFCU Bank, Jinja Rd branch who include the branch manager, credit manager, and risk assessment officers, they were asked for their views on how effective credit risk identification is in influencing loan performance and their responses were as follows;

The informants observed that credit risk identification in DFCU Bank, Jinja Rd branch is highly effective in influencing the performance of loans. They pointed out that the bank employs a systematic procedure of identifying the potential risks before approving a loan, such as screening the financial history of the clients, assessing their repayment capacity, and considering industry- related issues that may affect their repayment capacity. Through the identification of risks ahead of time, the bank is able to appropriately structure loans, set realistic repayment terms, and put in place specific mitigation factors, all of which result in better loan performance and lower default rates. The respondents mentioned that by recognising risk at an early stage, the bank can take wise decisions regarding profitability and risk management.

Credit risk assessment was seen by the respondents as not only identifying risky clients but also identifying factors that may influence the repayment capability, including the state of the economy, market dynamics, and the client's behavior. It emerged that the credit risk assessment process used by the bank combines qualitative and quantitative methods. Quantitative methods include use of statistical models, such as credit scoring models and ratio analysis, while qualitative method includes the bank's investigations and interviews with clients. According to the views of the respondents, the long process makes it unlikely that the bank will have nonperforming loans, thereby making the bank's portfolio sound and creating financial stability due to identification of problems prior to lending.

However, the key informants emphasized the fact that credit risk identification is a process that works well in most cases, although the extent of its effectiveness depends on the degree to which the data gathered is reliable and how competent the personnel carrying out the assessment are. The key informants stressed that continuous training and building of capacity among credit officers is essential in ensuring that the highest standards are maintained in credit risk identification. Moreover, the key informants emphasized that continuous improvement in credit risk identification approaches, such as through the use of advanced data analytics and tracking market trends, continues to result in better loan outcomes. In summary, the key informants confirmed that;

"*.....Identifying potential credit risks before loan approval allows us to structure loans more effectively and significantly reduces the chances of defaults.....*" **Key Informant 1**

"*.....The effectiveness of our credit risk identification depends not just on the tools we use, but on the thoroughness and expertise of our staff in assessing each client.....*" **Key Informant 2**

4.4 Relationship between credit risk assessment and loan performance in DFCU Bank.

Table 4 uses a Likert scale with SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree), and SD (Strongly Disagree) to describe respondents' answers about the relationship between credit risk assessment and loan performance at DFCU Bank, Uganda.

Table 4

Table 4: The relationship between credit risk assessment and loan performance from DFCU Bank

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	F (%)	F (%)	F (%)	F (%)	F (%)
The bank conducts comprehensive assessments of borrowers before granting loans.	15 34.1%	25 56.8%	1 2.3%	3 6.8%	00
Borrowers' creditworthiness is adequately evaluated through financial analysis.	19 43.2%	14 31.8%	10 22.7%	1 2.3%	00
DFCU Bank ensures collateral security is sufficient and properly valued during assessment.	18 40.9%	21 47.7%	2 4.5%	3 6.8%	00
The credit risk assessment process helps to minimize non-performing loans.	21 47.7%	18 40.9%	3 6.8%	2 4.5%	00
The bank applies clear guidelines when assessing the repayment capacity of borrowers.	13 29.5%	16 36.4%	10 22.7%	3 6.8%	2 4.5%
The accuracy of credit risk assessment has a direct impact on loan performance.	14 31.8%	22 50.0%	2 4.5%	6 13.6%	00

Source: *Primary data*

Table 4 presents the results on the correlation between credit risk assessment and loan performance at DFCU Bank in Uganda. The study findings show that 88.6% of the respondents agreed that the credit risk assessment process assists in reducing the number of non-performing loans, 4.5% disagreed, and 6.8% were uncertain. It shows that proper assessment process is an important factor for defaulting of loans, and by conducting multiple assessments, the quality of loans can be improved.

In addition, it was found out that 88.6% of the respondents believe that DFCU Bank provides proper evaluation of their collateral security, 6.8% disagree, while 4.5% are undecided. This suggests that good assessment of collateral is critical in protecting the bank from loan losses; hence, proper validation of collaterals could help in achieving better loan performance.

Further, the study revealed that 81.8% of those surveyed believed that loan performance depends on credit risk assessment accuracy, while 13.6% did not agree and 4.5% were undecided. Thus, it becomes clear why it is so important to carry out proper assessment processes when identifying the reliability of borrowers, as increased accuracy will bring about positive results.

Furthermore, it was discovered that 90.9% of the participants felt that the bank performs extensive scrutiny on the borrowers before lending out money while 6.8% disagree and 2.3% were not sure about this. It shows that the extensive scrutiny of borrowers' profiles is highly effective, and such careful scrutiny will ensure non-performing loans.

In addition, the findings illustrated that 75.0% of the respondents agreed that creditworthiness of borrowers is well examined by means of financial analysis, whereas 2.3% disagreed and 22.7% were not sure. This indicates that financial analysis is most frequently considered to be an effective tool to gauge creditworthiness, though the relatively higher rate of uncertainty reflects the need for less ambiguous or standardized measuring processes.

Lastly, the findings revealed that 65.9% of the respondents agreed that the bank employs specific guidelines in assessing the repayment ability of borrowers, 11.3% did not agree, and 22.7% did not have an opinion. It shows that repayment ability guidelines are somewhat effective and that greater clarity and standardization in applying these guidelines would further strengthen loan performance.

Overall, the findings indicate that credit risk assessment in DFCU Bank, Jinja Rd, is highly effective and positively correlated to loan performance. The majority of the respondents agreed on all statements, indicating that detailed borrower analyses, proper financial analysis, collateral checking, and clear guiding principles for assessment cumulatively contribute to reducing non- performing loans and maximizing repayments. This confirms the necessity for continuous improvement in assessment procedures to sustain and improve loan performance. Pearson's correlation analysis was used to further ascertain the study's conclusions regarding the relationship between credit risk assessment and loan performance at DFCU Bank in Uganda, as indicated below;

Table 5

Table 5: Pearson's correlation on credit risk assessment and loan performance

Correlations

		Credit risk assessment	Loan performance
Credit risk assessment	Pearson Correlation	1	.596**
	Sig. (2-tailed)		.000
	N	44	44
Loan performance	Pearson Correlation	.596**	1
	Sig. (2-tailed)	.000	
	N	44	44

**. Correlation is significant at the 0.05 level (2-tailed).

Source: *Primary data*

The findings indicated in table above shows that there is a significant positive relationship between credit risk assessment and loan performance in DFCU Bank, Uganda. This relationship is affirmed by (r = .596**, p < .05). This implies that effective credit risk identification significantly enhances loan performance at ABSA Bank, indicating that thorough identification of potential credit risks contributes to improved repayment and reduced defaults.

4.4.1 Contribution of credit risk assessment to loan performance in DFCU Bank.

From the interviews conducted with the key informants who are; top officials from the management department in DFCU Bank, Jinja Rd branch who include the branch manager, credit manager, and risk assessment officers, they were asked for their views on the ways in which credit risk assessment contributes to reducing loan defaults and their responses were as follows;

The key informants explicated that credit risk assessment is the core in preventing loan defaults at DFCU Bank, jinja Rd branch by providing systematic analysis of customers' capacity to repay before loan disbursements. They claimed that the process of assessment involves looking at customers' financial statements, sources of income, debt obligations, and cash flow patterns. By scrutiny of the determinants, the bank can identify risk borrowers and change the terms of the loan or decline the loan, cutting down directly on the number of non-performing loans. The interviewees identified that such a well-structured process ensures that credit decisions are made on objective fact-based knowledge rather than on intuition and therefore improve overall loan performance.

Moreover, the key informants expressed that credit risk assessment helps the bank determine the adequacy of collateral and guarantees, which is a security against defaults. They explained that analyzing the value and usability of collateral is required to guarantee that when payment defaults happen, the bank can recover its funds properly, reducing the financial impact of defaults. They also stated that risk assessment helps the bank classify its customers according to different levels of risk and, therefore, enables them to implement customized measures to monitor and address risks associated with the particular customers. Consequently, it is possible to identify possible repayment problems and address them immediately, thereby preventing loan default.

The participants were also focused on the need for periodic revision and updating of the criteria used in evaluating creditworthiness in order to keep pace with new economic conditions and behavior by clients. The respondents stated that the constant evolution of evaluation methods, including the use of credit scoring systems, market pressures, and payment history, improves the capacity of the bank to foresee potential problems and counteract them. In the opinion of the key informants, effective credit risk assessment not only helps to identify future problem credits but also influences the design of loans, the terms of repayment, and the treatment of the customer, thus ensuring that defaults do not occur. Some of these key informants stated that;

"*.....A thorough credit risk assessment ensures that we only extend loans to clients who have the capacity to repay, which significantly lowers default rates.....*" **Key Informant 3**

"*.....By evaluating collateral and categorizing borrowers by risk level, we can take preventive measures early, reducing the likelihood of non-performing loans.....*" **Key** Informant 4

4.5 Relationship between credit monitoring and loan performance in DFCU bank.

Table 6 uses a Likert scale with SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree), and SD (Strongly Disagree) to summarize respondents' answers about the relationship between credit monitoring and loan performance at DFCU Bank, Uganda.

Table 6: The relationship between credit monitoring and loan performance in DFCU Bank.

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	F (%)	F (%)	F (%)	F (%)	F (%)
DFCU Bank regularly monitors loan repayment schedules of borrowers.	13 29.5%	19 43.2%	8 18.2%	2 4.5%	2 4.5%
Follow-up mechanisms are in place to detect early signs of potential loan default.	20 45.5%	10 22.7%	7 15.9%	4 9.1%	3 6.8%
Loan officers maintain continuous contact with clients to track their financial progress.	24 54.5%	10 22.7%	8 18.2%	2 4.5%	00
The bank effectively monitors the use of loan funds to ensure they serve the intended purpose.	23 52.3%	13 29.5%	3 6.8%	5 11.4%	00
Credit monitoring practices have improved the recovery of outstanding loans.	12 27.3%	15 34.1%	13 29.5%	1 2.3%	3 6.8%
Proper credit monitoring contributes to reducing loan losses in the bank.	23 52.3%	18 40.9%	3 6.8%	00	00

Source: *Primary data*

Table 6 represents the descriptive statistics on the relationship between credit monitoring and loan performance in DFCU bank, Uganda. According to study, 93.2% of the respondents agreed that good credit monitoring contributes to reduced loan losses in the bank, and no respondent disagreed; 6.8% were not sure. This implies that long-term and effective monitoring is very much appreciated as a key driver of loan default minimization, with the underlying message that long-term credit monitoring can significantly protect the bank's financial interests.

The study also revealed that 81.8% of the subjects agreed that loan officers maintain regular contact with borrowers to track their payment history, 4.5% disagreed, while 18.2% did not know. This shows that continuous interaction between the borrower and the lending officer works well in monitoring the repayment performance, and hence good customer relations may help improve early detection of repayment problems.

In addition, from the results obtained, it was evident that 81.8% of the people who were surveyed agreed with the idea that the bank is efficient in ensuring that the funds borrowed are being used appropriately and as expected. However, 11.4% of them did not agree while 6.8% were uncertain. This implies that it is important to make sure that funds borrowed are used in the right way.

Moreover, from the study, it was revealed that 68.2% of the respondents believed that there is an early warning system for detecting early signs of defaulting on loans; 15.9% were opposed to this notion, while 15.9% had no idea. This indicates that the early warning systems are partially effective, implying that re-enforcing follow-up processes can serve to further reduce nonperforming loans.

In addition, the findings established that 61.4% of the respondents agreed that DFCU Bank methodically monitors loan repayment schedules of clients, 9.0% disagreed, and 18.2% were unsure. This shows that tracking repayment schedules is primarily utilized but with room to improve on in order to be complete and consistent for all clients, and that better tracking of schedules can lead to better compliance with repayment.

Lastly, the findings revealed that 61.4% of the respondents agreed that credit monitoring practices improved recovery of delayed loans, while 9.1% disagreed and 29.5% were unaware. This indicates that credit monitoring is believed to be moderately effective in enhancing loan recovery; implying further refinement of monitoring schemes can enhance repayment levels.

Overall, the study indicates that credit monitoring at DFCU Bank, kampala, is effective and positively affects loan performance. The respondents agreed on most of the statements, indicating that client regular follow-up; check on utilization of funds, follow-up provisions, and repayment schedules monitor in combination assist in reducing loan losses and improving recovery. This indicates that strong credit monitoring systems need to be strengthened and maintained in order to guarantee good loan performance. The findings of the study concerning the relationship between credit monitoring and loan performance in DFCU Bank, Uganda were further determined using Pearson's correlation that was conducted as shown below;

Table 7: Pearson's correlation on credit monitoring and loan performance

Correlations

		Credit monitoring	Loan performance
Credit monitoring	Pearson Correlation	1	.654**
	Sig. (2-tailed)		.000
	N	44	44
Loan performance	Pearson Correlation	.654**	1
	Sig. (2-tailed)	.000	
	N	44	44

**. Correlation is significant at the 0.05 level (2-tailed).

Source: *Primary data*

The findings indicated in table above shows that there is a significant positive relationship between credit monitoring and loan performance in DFCU Bank, Uganda. The above correlation coefficient value ($r = .654^{**}$, $p < .05$) corroborates this finding. In other words, the results show that proper monitoring of credit facilities has a positive influence on the repayment of loans at DFCU Bank.

4.5.1 Effect of monitoring credit on performance of loans in DFCU Bank.

In the interviews carried out with the main respondents being top managers in the Management department of the bank including; the Branch Manager, Credit Manager, Risk Assessment Officers in Kampala branch of DFCU Bank, their perspectives concerning continuous credit monitoring in relation to loan repayment were as follows;

The main point brought out by the key informants was that the consistent monitoring of credit plays a significant role in improving loan recoveries for the DFCU Bank, Jinja Rd. Branch by helping the bank keep track of how their customers use credit. They noted that through the consistent monitoring of credit, the bank can keep track of the repayment plan, spot any signs that would make the client fail to repay, and help prevent the defaulting before it happens.

Through consistent checking, the clients will be held accountable for their actions and the bank will implement preventive measures.

Moreover, the interviewees also stated that credit surveillance facilitates the process of ensuring that the loans provided are used for their intended purposes. As the bank monitors the activities of its clients and projects on a consistent basis, it becomes possible for the bank to spot any signs of improper use of the money, which may affect its ability to receive payments from the clients. Consequently, through monitoring, the bank can take proactive measures and advise its clients on how to manage their finances better while making informed decisions concerning lending in the future.

Credit monitoring and its ability to supply useful information for risk assessment and management were highlighted by the key informants. Through consistent evaluation of repayment performance and performance in general, the bank can tailor its lending strategies and focus on high-risk clients and develop intervention measures. The key informants explained that consistent follow-up and communication with the clients promote transparency and encourage communication that is motivating and inspires timely repayments. They all agreed that through effective credit monitoring, banks can avoid loan defaults and improve their profitability from loans altogether. Some of these key informants mentioned that;

"*.....Regular monitoring allows us to detect repayment challenges early and intervene before they turn into serious defaults.....*" **Key Informant 5**

"*.....Continuous oversight of loans ensures that clients use the funds appropriately and remain committed to meeting their repayment schedules.....*" **Key Informant 6**

CHAPTER FIVE

DISCUSSION, SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The findings in reference to the literature are discussed in this chapter. Along with summarizing all of the findings from chapter four in light of the study's questions, it also makes conclusions, offers suggestions, and identifies some areas that warrant more research.

5.1 Discussion of findings

5.1.1 Relationship between credit risk identification and loan performance in DFCU Bank.

The findings of the study established that credit risk identification in DFCU Bank, Jinja Rd branch, is extremely effective and positively affects loan performance. The findings are consistent with the literature by Siddique et al. (2022), who observed that systematic identification of potential credit risks significantly improves repayment levels and reduces non-performing loans in commercial banks. Similarly, Fadun and Silwimba (2023) noted that efficient credit risk identification, including scrutiny of borrower information and early warning signs, enhances financial stability and the performance of the loan portfolio. These observations are corroborated by ABSA Bank's descriptive findings, which reflected that most respondents agreed on the use of reliable tools, background checks, and early risk signs, demonstrating that effective risk identification processes contribute significantly to loan default reduction.

From the findings of the study, it can be concluded that using both quantitative and qualitative approaches in credit risk evaluation helps the DFCU Bank to properly package the loans and offer realistic repayment periods. The findings link with the literature on credit risk evaluation presented by Mwakujonga and Komba (2024), in which it is suggested that incorporation of the quantitative approach together with qualitative evaluations improves the predictions regarding borrowers' defaulting. Furthermore, according to Addy et al. (2024), the use of the predictive analysis contributes to making wise lending decisions and prevents losses for banks. The findings on DFCU Bank demonstrate the importance of the integrative tradition in lending.

Based on the above research results, the strong positive correlation between credit risk identification and loan performance ($r = 0.672$, $p < 0.05$) is an indicator of the need for appropriate risk identification to achieve better performance of loans. Indeed, these findings corroborate with those found in the existing literature by Agaba (2022) and Sowedi et al. (2024). The authors found out that good risk identification and management practices positively impact the performance of Ugandan commercial banks. The above findings add more value to the understanding that not only do such practices minimize defaults, but they are also critical for improving the efficiency of banks in general. Therefore, findings at DFCU Bank are congruent with the existing literature.

5.1.2 Relationship between credit risk assessment and the performance of loans in DFCU Bank.

From the findings from the study, it was observed that the process of analyzing credit risk at DFCU Bank, Jinja Road branch, was very efficient in ensuring that loan defaults were minimized and loan performance was improved. The findings are consistent with the research conducted by Siddique et al. (2022) which found that sound borrower assessment techniques, like financial screening, income confirmation, and debt analysis, minimize non-performing loans. Similarly, Al Zaidanin and Al Zaidanin (2021) observed that precise assessment of borrowers' creditworthiness and application of structured appraisal techniques have a positive influence on loan repayments, observing that accurate credit risk assessment is imperative towards sustaining the quality of loan portfolios in commercial banks. The findings in respondent consensus on collateral valuation, clear repayment terms, and process-oriented assessment procedures at DFCU Bank support these studies by highlighting the importance of systematic risk analysis in promoting repayment performance.

The study’s findings identified that credit risk assessment at DFCU Bank facilitates early identification of high-risk borrowers, facilitates changes in loan terms, and facilitates continuous monitoring to restrain defaults. Findings align with the study by Fadun and Silwimba (2023), which had postulated that comprehensive credit risk analysis allows banks to implement risk- sensitive interventions that optimize loan recovery and portfolio stability. Olobo et al. (2021) also pointed out that precise financial statement analysis, cash flows, and debt commitments guide actionable credit risk management and minimize non-performing loans. Similarly, results from DFCU Bank also provide an indication that a systematic approach to evaluation is likely to identify not only problem loans but also help in tailoring repayment and monitoring programs. This ultimately improves loan performance.

From the results of the analysis, there is a positive high relationship between credit risk assessment and loan performance ($r=0.596$, $p<0.05$). This indicates the importance of carrying out an accurate and proper appraisal in ensuring a healthy loan portfolio. These findings support the findings by Agaba (2022), who found that banks in Uganda, which carry out proper credit risk assessment, have achieved better performance levels. Sowedi, Johnson, and Akena (2024) also argued that effective assessment procedures, including collateral validation and stipulated repayment assessments, improve the correctness of borrower behavior, thereby improving financial performance. Overall, findings at DFCU Bank concur with existing literature confirming that prudent credit risk analysis is key to minimizing non-performing loans, enhancing recovery, and enhancing profitability and banking business sustainability.

5.1.3 Relationship between credit monitoring and loan performance in DFCU Bank.

The findings showed that continuous credit monitoring in DFCU Bank, Jinja Rd branch, contributes significantly to loan reduction defaults and improved repayment performance. Findings are consistent with the literature presented by Agaba (2022), in which he pointed out that persistent monitoring of loan books, like tracking payment timelines and watching over clients' behavior, is key to loan recovery enhancement and non-performing loans minimization in Ugandan commercial banks. Similarly, Orichom and Omeke (2021) found that regular follow- ups of clients and monitoring the utilization of funds strengthen repayment habits and reduce financial risk, noting that regular and systematic credit surveillance is a critical component of prudent credit risk management. The ABSA Bank findings in that observing schedules, customer contact, and fund confirmation reduce loan losses are consistent with these studies, whereby they validate that actual life monitoring interventions have a direct correlation to enhanced loan performance.

Once more, the results of this research revealed that early warning systems and proactive loan officers' interventions in ABSA Bank enable the identification and offsetting of payment problems prior to defaults. The research concurs with the literature by Mwakujonga and Komba (2024), who contended that the use of early detection systems and proactive follow-ups enables financial institutions to foresee potential loan defaults, making room for prompt corrective measures that enhance overall loan performance. Likewise, Addy et al. (2024) observed that the effectiveness of predictive analysis and constant surveillance of the financial actions of debtors enhance the effectiveness of banks in tackling credit risk by ensuring that funds flow to where they should and repayment remains the primary objective. The practice of early warning systems and frequent engagement of borrowers employed by the ABSA Bank is evidence to the effect that carefully crafted monitoring systems are essential for avoiding loan defaulting.

The findings of the research revealed that loan performance is strongly correlated with credit monitoring at DFCU Bank ($r = 0.654$, $p < 0.05$), and it proves that rigorous and continuous monitoring enhances the rates of repayment and portfolio quality. The summary is in accord with research conducted by Barugahare (2023), whereby he noted that frequent credit monitoring, as well as performance monitoring, enhances the financial results of microfinance companies in Uganda via reduction of defaults and higher recovery rates. Bakashaba, Lutaaya, and Arinaitwe (2022) contributed that banks with systematic payment behavior monitoring and constant communication with borrowers realize higher repayment satisfaction as well as fewer non- performing loans. Collectively, the studies corroborate the DFCU Bank findings, accentuating the fact that credit monitoring plays an important role in maintaining loan performance and financial health of banking entities.

5.2 Summary of findings

The findings revealed that credit risk identification in DFCU Bank, Jinja Rd branch, is highly effective and has a positive influence on loan performance. Descriptive findings revealed that the majority of the respondents were unanimous that effective credit risk identification reduces loan defaults, gives sufficient information to predict repayment ability, employs reliable tools and techniques, conducts thorough customer background checks, and detects warning signs of potential default. The key informant interviews also substantiated that consistent risk identification through a combination of quantitative and qualitative assessments helps the bank properly position loans, set realistic repayment, and undertake mitigation actions, thus enhancing loan quality and financial stability. Secondly, Pearson's correlation test established a positive correlation between identifying credit risk and loan performance ($r = 0.672$, $p < 0.05$), verifying that good identification of potential credit risks plays a direct part in higher repayment levels and lower non-performing loans. Therefore, the findings highlight that good credit risk identification is a guarantee to maintain a strong loan book and minimize losses for ABSA Bank.

Furthermore, the findings established that credit risk assessment in DFCU Bank, Jinja Rd branch, is highly effective and is in loan favor. Descriptive findings verified that the majority of respondents agreed that comprehensive evaluation of the borrower, adequate analysis of creditworthiness, adequate valuation of collateral, application of precise repayment requirements, and precision in assessment procedures all singly and collectively help in controlling non- performing loans. Key informant interviews also supported that rigorous analysis of financial data, cash flows, debt obligation, and income streams enables the bank to identify high-risk borrowers, adjust loan terms, and engage in proactive monitoring, thereby reducing defaults. Further, the assessment process ensures collateral sufficiency, risk-based client segmentation, and continuous updating of credit evaluation criteria, thereby optimizing predictive accuracy and recovery of loans. Pearson correlation test confirmed the positive relationship between credit risk assessment and loan performance ($r = 0.596$, $p < 0.05$), which indicated that effective and precise credit assessment contributed significantly towards superior repayment levels, lower non- performing loans, and superior overall loan portfolio performance in DFCU Bank.

Lastly, the findings indicated that credit monitoring at DFCU Bank, Jinja Rd branch, is good and has a beneficial effect on loan performance. Descriptive findings indicated that the majority of respondents agreed that continuous monitoring of repayment plans, regular communication between loan officers and customers, verification of utilization of funds, and early warning systems as a whole lead to an increase in loan loss reduction and better recovery of past-due loans. Key informant interviews also helped to emphasize that ongoing monitoring enables the bank to oversee borrowers' financial behavior, detect preliminary indications of payment problems, act early, and ensure that the loans are applied for their intended purposes, which ensures borrower discipline and payment responsibility. Pearson's correlation test confirmed that there is a significant and positive correlation between loan performance and credit monitoring ($r = 0.654$, $p < 0.05$), indicating that proper and consistent monitoring of loans directly relates to higher repayment, lower defaults, and overall better loan portfolio performance at DFCU Bank.

5.3 Conclusions

The study concludes that that the identification of credit risk in DFCU Bank, Jinja Rd branch, is an important factor in enhancing loan performance. Effective identification of potential credit risk, through extensive background verification, effective assessment tools, and early warning systems, enables the bank to anticipate and avoid potential defaults. The positive correlation ($r = 0.672$, $p < 0.05$) between credit risk identification and loan performance confirms that systematic and precise risk identification directly influences improved repayment rates and lowering of non- performing loans, and therefore bank financial stability and overall portfolio health.

Furthermore, the study concludes that sound credit risk assessment practices at DFCU Bank extensively improve loan performance. Through the analysis of financial statements of the borrowers, sources of funds, level of indebtedness, and adequacy of the collaterals, the bank would be able to risk-classify, modify terms of loans and actively monitor the loans. The highly positive correlation ($r = 0.596$, $p< 0.05$) between credit risk assessment and loan performance shows that rigorous assessments lead to better predictions, reduced default rates, and improved recovery rate, meaning that credit risk assessment plays a vital role in determining loan portfolio success.

Finally, the results obtained from the study indicate that careful credit monitoring in DFCU Bank plays a critical role in enhancing loan performance. Through continuous monitoring of the loan repayment plans, regular communication with borrowers, verifying the use of money, and putting in place early warning systems, DFCU Bank is able to detect any problems arising in respect to repayment and also ensure that the borrowed money is used in the correct manner. It therefore comes as no surprise that there is a strong correlation ($r = 0.654$; $p<0.05$) between credit monitoring and loan performance.

5.4 Recommendations

From the analysis presented in the results, the following recommendations have been deemed necessary in regard to the impact of credit risk management on the loan performance of commercial banks in Uganda using DFCU Bank, Jinja Rd as a case study.

Therefore, the study recommends that there should be a continuous improvement in the methods of detecting the risks in credit operations through the adoption of highly developed models and early warning systems at DFCU Bank, Jinja Rd branch. The adoption will help the bank predict future defaults, detect high-risk customers, and adopt preventive measures that will increase loan recovery and reduce non-performing loans.

Also, the study recommends that there should be a set of credit evaluation guidelines including the financial statements, source of income, debts, and flow of money at DFCU Bank. Through the harmonization and strict application of the process of credit evaluation, it will be possible to ensure that all the terms of the loans are effectively structured and proper appraisal of the collaterals carried out.

The research further suggests that there is a need for DFCU Bank to improve the credit monitoring system through systematic follow-ups and frequent communication with the customers who take loans from the institution. Frequent monitoring of the payments and loan disbursement will allow the financial institution to be able to see early signs of problems with payments, act quickly, and ensure that money borrowed is used in the intended manner, thus enhancing the accountability of borrowers and ensuring recovery of the borrowed money.

Moreover, the study indicates that it is important for the DFCU Bank to have training in relation to modern ways of managing credit risks. Through this, efficiency in terms of monitoring and analysis of borrowers will be attained in addition to being able to identify areas that have problems should the borrowers become reluctant in making repayments of the borrowed funds.

Finally, the study recommends that it is important for the ABSA Bank to segment its customers on the basis of the risk profile for each one of them. By focusing on high-risk borrowers and at the same time continuing with continuous monitoring of all other customers, the bank is able to manage its credit risks effectively.

5.5 Areas for further research

Taking into consideration the aim of the present research which was to study the impact of credit risk management practices on the performance of loans at Ugandan commercial banks, particularly DFCU Bank in Jinja Rd, the research recommends that future studies be undertaken in the fields connected with this topic. The fields for further investigation include the following;

Further research may center on evaluating the impact of credit risk management in various Ugandan commercial banks operating in various parts of the country.

Another avenue for further research would be to examine the influence of banking technology, including predictive analysis and automatic monitoring, on loan performance and credit risk management. Future studies could also explore how external factors such as regulations, business cycles, and market competition affect loan performance and credit risk management.

Finally, examining the influence of borrower-specific variables, i.e., business category, loan size, and financial literacy, on the performance of loan repayment would provide additional insights into the enhancement of credit risk management strategy in Ugandan commercial banks.

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APPENDICES

Appendix 1: Questionnaire

For employees in DFCU Bank, Jinja Rd branch

Introduction and Purpose of Study

Dear Respondent,

I am Nduwayo Derick Basaza, a student pursuing a Bachelor's Degree in Business Administration at Uganda Christian University. I am working on a study titled ***"Credit risk management and loan performance of commercial banks in Uganda: a case of DFCU bank Jinja Rd branch Uganda."*** Your contribution is essential to the type of data needed for this study, which is why you were chosen to take part. Your submitted information will be kept completely secret and used only for academic purposes. Kindly spare some few minutes to respond to the following questions.

Section A: Background Data

Please TICK the numbers representing the most appropriate responses for you in respect of the following items:

1. Gender

a) Male ☐ b) Female ☐

2. Age

a) 21-30 years ☐ b) 31-40 years ☐

c) 41-50 years ☐ d) Above 50 years ☐

3. Education level

a) Certificate ☐ b) Diploma ☐

c) Degree ☐ d) Masters ☐

e) Others specify:…………………………………

4. Which department do you belong to?

a) Administrationb) Credit

c) Operationsd) Audit

e) I.T

5. How long have you spent working with DFCU Bank, Jinja Rd branch?

a) Less than 1 year b) 1-5 years

c) 6-10 years d) Above 10 years

Guide for Completing the Questionnaire:

Note: In the following sections, rate your degree of agreement on each statement under each objective using a scale of 5(Strongly Agree), 4(Agree), 3(Not sure), 2(Disagree) and 1(Strongly Disagree). Please answer questions by making a tick (√) on your preferred answer of choice.

Section B: Credit Risk Management

	Statements	**Responses**				
s. no	**Credit risk identification**	**5**	**4**	**3**	**2**	**1**
1	DFCU Bank has effective procedures for identifying potential credit risks before loan approval.					
2	Early warning signals of borrower default are adequately captured during risk identification.					
3	The bank uses reliable tools and techniques to identify credit risks among clients.					
4	Information gathered during risk identification is sufficient to predict borrower repayment ability.					
5	Customer background checks are thoroughly conducted during the credit risk identification stage.					
6	Proper credit risk identification has reduced the chances of loan defaults in the bank.					
s. no	**Credit risk assessment**	**5**	**4**	**3**	**2**	**1**

1	The bank conducts comprehensive assessments of borrowers before granting loans.					
2	Borrowers' creditworthiness is adequately evaluated through financial analysis.					
3	DFCU Bank ensures collateral security is sufficient and properly valued during assessment.					
4	The credit risk assessment process helps to minimize non-performing loans.					
5	The bank applies clear guidelines when assessing the repayment capacity of borrowers.					
6	The accuracy of credit risk assessment has a direct impact on loan performance.					
s. no	**Credit monitoring**	**5**	**4**	**3**	**2**	**1**
1	DFCU Bank regularly monitors loan repayment schedules of borrowers.					
2	Follow-up mechanisms are in place to detect early signs of potential loan default.					
3	Loan officers maintain continuous contact with clients to track their financial progress.					
4	The bank effectively monitors the use of loan funds to ensure they serve the intended purpose.					
5	Credit monitoring practices have improved the recovery of outstanding loans.					
6	Proper credit monitoring contributes to reducing loan losses in the bank.					

Section C: Loan Performance in DFCU Bank, Uganda

	Statements	**Responses**				
s. no	**Loan performance in DFCU Bank**	**5**	**4**	**3**	**2**	
1	Loan recovery rates at DFCU Bank are generally satisfactory.					
2	The bank experiences a low level of non-performing loans.					

3	Effective loan performance has strengthened the bank's profitability.					
4	The repayment capacity of clients has improved loan performance at DFCU Bank.					
5	Loan performance is positively influenced by the bank's credit risk management strategies.					
6	DFCU Bank has maintained a sustainable level of loan portfolio quality.					

Thank you very much for your cooperation

Appendix 2: Interview Guide

For the top management of DFCU Bank, Jinja Rd branch

Introduction

Dear Respondent,

I am Nduwayo Derick Basaza, a student pursuing a Bachelor's Degree in Business Administration at Uganda Christian University. I am working on a study titled ***"Credit risk management and loan performance of commercial banks in Uganda: a case of DFCU Bank, Kampala, Uganda."*** Your contribution is essential to the type of data needed for this study, which is why you were chosen to take part. Your submitted information will be kept completely secret and used only for academic purposes. Kindly spare some few minutes to respond to the following questions.

Section A: Introduction

1. Tell me about yourself.
2. What position do you hold in DFCU Bank, Jinja Rd Branch?
3. How long have you worked in this position?

Section B: The relationship between credit risk identification and loan performance in DFCU Bank, Uganda

4. How does DFCU Bank identify potential credit risks among borrowers?
5. In your view, how effective is credit risk identification in influencing loan performance?
6. What challenges do you face in identifying credit risks before loan approval?

Section C: The relationship between credit risk assessment and loan performance in DFCU Bank, Uganda

7. How does DFCU Bank assess borrowers' creditworthiness before loan approval?
8. In what ways does credit risk assessment contribute to reducing loan defaults?
9. What gaps do you see in the current credit risk assessment practices?

Section D: The relationship between credit monitoring and loan performance in DFCU Bank, Uganda

10. How does DFCU Bank monitor loans after disbursement?

11. In your opinion, how does continuous credit monitoring affect loan repayment?
12. What challenges do you face in monitoring clients to ensure loan performance?

Thank you for your cooperation