NESTOR ADVISORY

Credit Risk Module

Credit Risk

Assessment Report

PREPARED FOR

Institution X

Tier 2 · Regulated, deposit-taking financial institution · Sub-Saharan Africa

SAMPLE REPORT · Institution identifiers anonymised. Methodology and structure are representative of the deliverable provided to paying clients.

Walter Tukahiirwa, CFA, ACCA · Nestor Advisory · www.nestoradvisory.com · Kampala · 2 June 2026

Executive summary

Institution X is a Tier 2, regulated, deposit-taking financial institution that has nearly tripled in scale over the last five years. Credit transaction-level practice is broadly in place; portfolio-level controls have not kept pace with the growth of the book.

The institution scores 39 of 73 possible points (53%) against the Tier 2 Credit Risk benchmark - the Amber band: emerging, with foundational gaps that are not yet resolved.

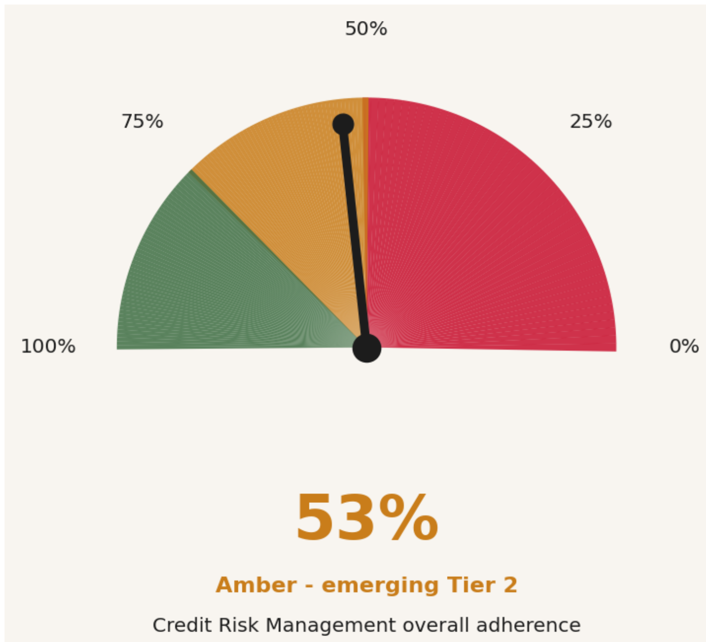

Figure 1. Credit Risk overall adherence against Tier 2 expectations.

Top strengths

- Credit policies cover the core operational areas (credit process, KYC, repayment capacity, monitoring, collection, provisioning, write-offs, approvals, code of conduct).
- Standardised application of credit policies across the network and well-functioning central and local credit committees.
- Daily arrears reports reach field staff; monthly provisioning is tooled and segmented by risk category.
- Annual geographical concentration analysis in place.

Top gaps

- No policy or limit for related-party loans; no formal loan restructuring policy.
- No portfolio diversification policy; no portfolio risk mapping.
- No portfolio concentration or PAR limits by product, branch or sector - despite credit products growing from 5 to 15 and branches from 10 to 25 over the period.
- Monthly credit and provisions reports lack trend analysis and comparison to limits.
- Field appraisal covers client OR guarantor (not both); incentives skewed to SME loans with no balancing social objectives.

Three urgent actions to start within the next 90 days

1. Approve a Portfolio Diversification Policy with concentration limits by product, branch and economic sector. 2. Issue a Related-Party Loans Policy with single-name and aggregate limits and quarterly board reporting. 3. Upgrade the monthly Credit Risk Report to include trend analysis, restructured portfolio share and explicit comparison of each indicator to its limit.

Approach

This report applies the Nestor Advisory Risk Maturity Framework, a structured benchmark for risk management practice in financial institutions. The framework organises risk management into three tiers reflecting institutional maturity, and assesses each tier across two risk families inside the Credit Risk pillar - Credit Transaction Risk and Portfolio Risk - and four control dimensions for each family: Policies, Limits, Risk management tools and Risk monitoring tools.

Tier classification

Institution X is classified Tier 2 on the basis of size (USD 5 - 50 million in assets), regulatory status (regulated, deposit-taking), audit history (audited for at least three years), rating history (rated within the last two years) and profitability (positive return on assets in at least two of the last three years).

Scoring scale

Each requirement is rated Adheres (1.0), Partially adheres (0.5), Doesn't adhere (0.0) or Not applicable (excluded from the denominator). Aggregate scores translate into RAG bands: Green at or above 75% (mature practice), Amber 50 to 74% (emerging practice with material gaps), Red below 50% (foundational gaps requiring priority attention).

Institution X - five-year context

Institution X is a regulated deposit-taking financial institution operating in sub-Saharan Africa. The five-year window of this assessment covers 2020 through 2024.

Indicator	2020	2021	2022	2023	2024	Change
Total assets (USD m)	10	15	20	26	30	+200%
Gross loan portfolio (USD m)	9	12	18	23	27	+200%
Active clients ('000)	33	45	63	70	78	+136%
Branches	10	13	16	21	25	+150%
Credit products	5	6	8	12	15	+200%
PAR > 30	0.25%	0.60%	0.81%	1.00%	0.40%	-
Annual write-offs ($'000)	30	100	200	300	350	+1067%
Return on assets	+2.0%	+4.4%	+3.2%	-3.0%	+0.5%	-

The 2023 stress event explained

The 2023 financial year is a clear inflection point. Portfolio at Risk over 30 days peaked at 1.0%. Return on assets fell to -3.0% - the only negative year in the period. Write-offs were ten times their 2020 level. Recovery in 2024 was modest: ROA returned to a marginal +0.5%, well below the 2021 peak of +4.4%.

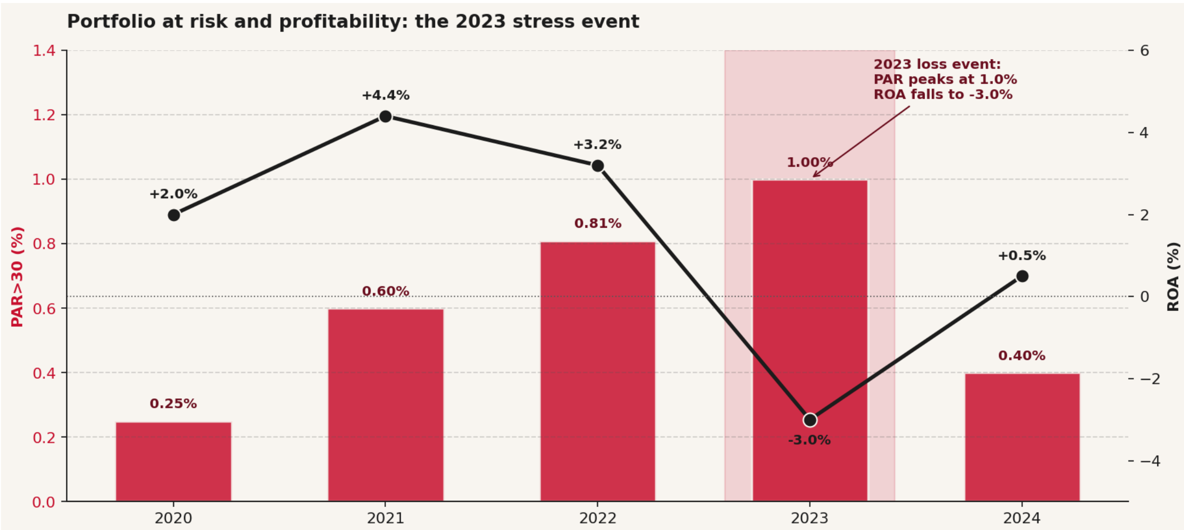

Figure 2. PAR>30 and ROA, 2020 to 2024. The 2023 episode is highlighted.

Many Tier 2 institutions of this profile present the same pattern: credible transaction-level credit tools, rapid growth from a sound base, an unexpected asset quality shock in year four or five. The pattern is not random. It is the direct consequence of growth in scale outpacing growth in portfolio risk control.

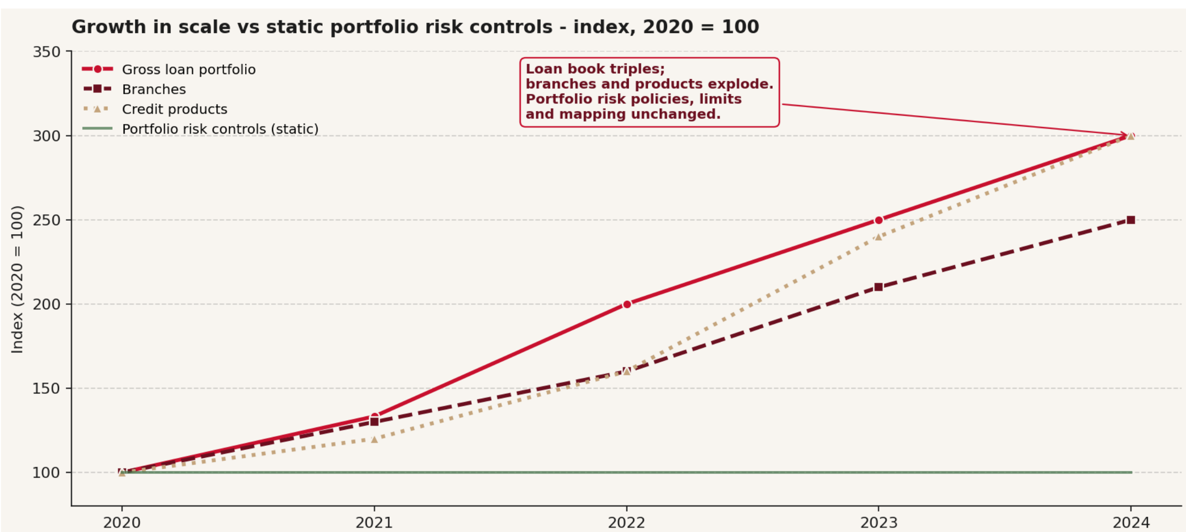

Figure 3. Growth in scale (loan book, branches, products) indexed against the static state of portfolio risk controls.

Three structural gaps explain why the 2023 deterioration was not caught earlier:

- No portfolio concentration limits by product or sector. As products grew from 5 to 15, no limit triggered escalation when a single product grew faster than the rest of the book.
- No restructured portfolio policy or limit. When clients began to struggle in late 2022, restructured loans absorbed early signals of distress without flowing into PAR or the monthly report.

- Monthly credit risk and provisions reports without trend analysis or comparison to limits. Management was looking at the right indicators but not at their direction of travel or at the line they were approaching.

The consulting insight

Institutions that complete the build of portfolio risk controls before the next growth cycle materially reduce the probability of a 2023-style episode. Institutions that do not, repeat it. The build-out is structural rather than operationally complex: it requires board sponsorship, a diversification policy, a limits framework and an analytics upgrade on existing monitoring artefacts.

Findings - Credit Transaction Risk

Policies

Credit policies cover the operationally critical areas. Two areas are absent and one is incomplete.

In place

Credit process; KYC and client visits; data verification; products and services; credit bureau use; parallel loans (external and internal); repayment capacity and over-indebtedness prevention; guarantees and valuation; loan monitoring, recovery and collection; loan provisioning; write-offs; non-permitted lending; credit approval committees; code of ethical conduct.

Material gaps

Area	Current state	Tier 2 expectation
Related-party loans	Not covered	Documented policy with single and aggregate limits and board reporting
Loan restructuring	Not covered	Policy with separate approval committee, MIS tagging, ageing reset rules
Client protection alignment	Partially aligned	Credit policies fully aligned with recognised client protection principles

Limits

Limits exist in pockets - on write-offs, on provisions over PAR30, and by loan risk category - but the framework as a whole is fragmented. Targets exist where the benchmark expects board-approved limits with explicit escalation. Specifically, there are no limits on PAR by ageing structure, on restructured portfolio share, or on related-party loans.

Why this matters

A target is a goal. A limit is a tripwire - when it is hit, defined people must take defined action. The absence of formal PAR limits by ageing meant that, through 2022 and 2023, deteriorating ageing was visible but no trigger forced the response.

Risk management tools

Strong on tooling (standardised credit policy application, sector knowledge, credit bureau consultation, repayment capacity tool, well-functioning credit committees, monthly provisioning by risk category, separate approval committee for restructured loans). Three material gaps:

Area	Current state	Tier 2 expectation
Field visits	Client OR guarantor	Systematic visit to BOTH client and guarantor

Incentive system	Skewed to SME loans; no social-objective measures	Incentives aligned with both financial and social objectives
Guarantee evaluation	Internal tool exists but inconsistently applied	Consistent application with periodic independent re-valuation for higher-value collateral

Risk monitoring tools

Daily arrears reports reach field staff. The monthly credit risk report exists and is reviewed, but the analytics layer is thin: PAR by ageing structure, restructured portfolio share, trend analysis and comparison to limits are missing. Monthly provisions monitoring covers provisions over PAR30 and by risk category but omits trend analysis, limits comparison and the provision expense ratio. There is no monthly report of related-party loans. Mapping of credit transaction risks is partial rather than systematic. More advanced tools - statistical scoring, vintage analysis, portfolio transition analysis - are absent (Tier 1-leaning).

Findings - Portfolio Risk

Portfolio risk is the risk that the loan book in aggregate is too concentrated, too undiversified or too exposed to a single sector, geography, methodology or product. For Institution X this is the weakest area of the assessment.

Policies

There is no formal portfolio diversification policy.

Why this matters

Without a diversification policy, growth decisions on new products, new branches and new sectors are made at the operational level without a strategic frame. Each individual decision can be defensible. The aggregate effect over five years can be a portfolio that is materially more concentrated than the board would consciously sanction.

Limits

A single limit exists - the maximum loan amount per credit product. This is necessary but not sufficient. The benchmark expects portfolio concentration limits and PAR limits across multiple dimensions.

Dimension	Concentration limit?	PAR limit?
Product	Partial - informal	No
Branch	No	No
Economic sector	Segmented but no limit	No
Credit methodology	Not assessed	Not assessed
Region	Not assessed	Not assessed

Risk management and monitoring tools

Annual analysis of geographical areas is performed. Annual analysis of economic sectors is not performed. Weekly portfolio concentration and PAR reports are produced and reach the credit team, but neither contains trend analysis or comparison to limits. Sector coverage is incomplete in both. Mapping of portfolio risks has not been performed.

Why this matters

The weekly reports are the right artefacts. Inside the reports the analytical layer that converts data into management decisions is missing. This is the single highest-leverage area for Institution X to invest in over the next two quarters - the artefacts already exist; upgrading them does not require new infrastructure.

Scoring summary

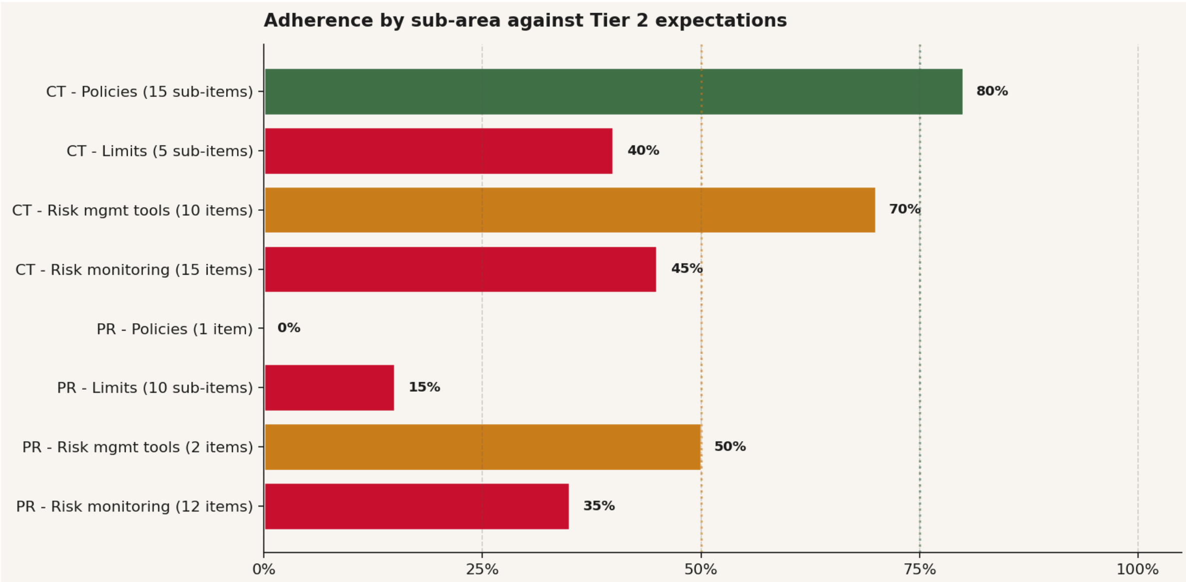

Figure 4. Adherence by sub-area against Tier 2 expectations.

The shape of the heat map is concentrated rather than balanced. Credit transaction policies are mature. Credit transaction risk management tools sit at the upper end of amber. Everything else - credit transaction limits, credit transaction risk monitoring, and the entire portfolio risk family - sits below 50%. This is not a 'balanced amber' picture. It is a transaction-strong, portfolio-weak picture. The action plan that follows is structured accordingly.

Prioritised action plan

Recommendations are sequenced into three priority tiers. Urgent addresses the structural causes of the 2023 deterioration. Short-term closes the remaining policy and limit gaps. Medium-term introduces tools that protect the institution as it continues to grow toward Tier 1.

Urgent (within 90 days)

#	Action	Verifiable indicator
U1	Issue Portfolio Diversification Policy with concentration limits and PAR limits by product, branch and sector. Board approval.	Policy document; limits embedded in MIS; first monthly board pack reflects limits.
U2	Issue Related-Party Loans Policy with single-name and aggregate limits. Quarterly board reporting and external audit attestation.	Policy approved; first RPL report at next board meeting.
U3	Issue Loan Restructuring Policy: separate approval committee, MIS tagging, ageing reset rule; restructured share in monthly report.	Policy approved; restructured share visible in next monthly credit risk report.
U4	Upgrade monthly Credit Risk Report: add PAR by ageing, restructured share, 12-month rolling trend, explicit comparison to limit.	Revised report; first issue to ALCO and board credit committee.

Short-term (3 to 12 months)

#	Action	Verifiable indicator
S1	Reinforce field appraisal: visit client AND guarantor on every appraisal. Update credit manual and loan officer training.	Updated manual; refreshed training; audit sample 90%+ compliant within 6 months.
S2	Rebalance field staff incentive scheme - add social-objective measures, reduce SME volume dominance.	Revised scheme; first quarter of payouts under new scheme.
S3	Bring credit policies fully into line with recognised client protection principles.	Self-assessment; updated credit manual.
S4	Add trend analysis, limits comparison and provision expense ratio to monthly provisions monitoring report.	Revised report; first issue circulated.
S5	Add annual analysis of economic sectors. Integrate with the new sector concentration limits.	First annual sector analysis paper presented to board credit committee.

Medium-term (12 to 24 months)

#	Action	Verifiable indicator
M1	Establish biennial credit transaction and portfolio risk mapping calendars.	Calendars documented; first formal mapping exercises completed.
M2	Introduce monthly vintage analysis; begin building a portfolio transition matrix.	Vintage report in production by month 18.
M3	Pilot a statistical credit scoring model on the two largest products.	Pilot results presented; decision to extend or refine documented.

How this report is used

The Credit Risk Module is one of three paid modules in the Nestor Advisory Risk Diagnostic. The deliverable shown here represents the standard scope:

- Scored assessment against the Tier 2 (or Tier 1 / Tier 3) benchmark in the Nestor Advisory Risk Maturity Framework.
- Findings narrative by sub-area, with explicit linkage between gaps observed and historical operating outcomes.
- Heat map and visual diagnostic that enables a board or executive committee to grasp the picture in two minutes.
- Prioritised action plan structured into urgent, short-term and medium-term tiers, each with verifiable indicators.
- 60-minute review call with Walter Tukahiirwa, CFA, ACCA - included in the module fee.

Sector-specific tailoring (retail bank, fintech, asset finance company, SACCO, MFI, DFI) is added in real engagements.

- END OF SAMPLE REPORT -

To request a real assessment for your institution, visit www.nestoradvisory.com or contact Walter Tukahiirwa at tukahiirwaw@gmail.com.