

**Financial risk management and financial performance of commercial banks in Uganda: A
case of Centenary Bank, Mukono Branch**

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**UGANDA CHRISTIAN
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DECLARATION

I Ainamazima Gloria hereby declare that this research report entitled, 'financial risk management and financial performance of commercial banks in Uganda: a case of Centenary Bank, Mukono Branch,' is my original work and it has never been submitted in any institution for any award. I have read the regulations of the University with regard to plagiarism and here declare that I abide by all of them.

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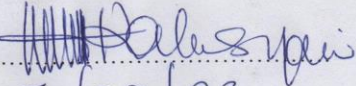
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APPROVAL

This is to acknowledge that this research report entitled, "financial risk management and financial performance of commercial banks in Uganda: a case of Centenary Bank, Mukono Branch," has been done under my supervision and is now ready for submission with my approval.

Signature.....

Date07/09/23.....

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DEDICATION

With special regard, I wish to dedicate this piece of work to my parents Mr. & Mrs. Mugabeho Benon and Deborah who have always been there to support me in my education. May the Almighty God richly bless you.

ACKNOWLEDGEMENT

I would like to thank the Almighty God for the gift of life and guiding me throughout my education; it has not being easy but it was possible. My heartfelt gratitude goes to my supervisor, Mr. Agume Anthony Kabisyaki for the tireless efforts and expertise he rendered to me during his supervision.

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ABSTRACT

The study explored the relationship between financial risk management and financial performance of commercial banks in Uganda: a case of Centenary Bank, Mukono branch. It specifically focused on; examining the relationship between financial risk identification and financial performance, establishing the relationship between financial risk assessment and financial performance and assessing the relationship between financial monitoring and financial performance of Centenary Bank, Mukono.

The study was carried out using a cross sectional survey research design where both quantitative and qualitative research approaches were also used. The data was collected using questionnaires and interviews during the data collection, both purposive and simple random sampling methods were used. A sample size of 48 respondents who are management and employees from Centenary Bank, Mukono branch was also used in the study although 44 responded to the study.

From the findings, it was revealed that the bank's well-defined procedures and systems for identifying potential financial risks, robust mechanisms for operational risk mitigation, and encouragement of employee reporting contribute significantly to improved financial performance. Additionally, the bank's effective utilization of advanced tools and models for risk assessment and its commitment to regular review and updates of risk assessment processes positively impact financial performance. Moreover, the bank's use of advanced technology for monitoring market trends, regular internal audits, and comprehensive financial statement reviews have a positive correlation with enhanced financial performance. These findings emphasize the importance of proactive risk management strategies and financial monitoring practices for Centenary Bank's sustained success.

The study recommended that Centenary Bank should strengthen risk identification and assessment processes through regular updates and knowledgeable evaluations, enhance employee engagement in risk reporting, optimize risk mitigation strategies, leverage technological advancements for monitoring, prioritize compliance and internal audits, nurture a culture of continuous improvement, and emphasize long-term financial sustainability by balancing risk-taking and prudent management for stability and resilience in changing economic conditions.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The study was “exploring the relationship between financial risk management and financial performance of commercial banks in Uganda: a case of Centenary Bank, Mukono branch.” This section presents the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, significance of the study and conceptual framework.

1.1 Background of the study

Scholars globally agree that the stability and soundness of the banking sector is key to economic development of any economy (Alqisie, 2018). Apart from facilitating savings, commercial banks extend credit to institutions and individuals which can be used to facilitate production, acquire capital assets and facilitate trade (Abuya & Niyonsenga, 2017; Eton et al., 2018). Commercial banks (CBs) turn a profit through extending credit services to institutions and individuals (Driga, 2012). Despite of this, the financial performance of commercial banks continues to decline. For instance, in China, banks reported that their aggregate net profit fell by 9.4% in 1H20 to CNY1 trillion. All Fitch-rated Chinese commercial banks reported net profit declines due to higher expected credit losses and lower net interest margins, in their rated portfolio (GraceWu, 2020).

In sub-Saharan Africa, despite extensive reforms in the financial sector during 1980s and 1990s with the view of improving access to financial services to private agencies, financial depth is very low averaging to 6.8% and not improving over the years (McDonald, 2007). Munyambonera (2013) adds that commercial banks profitability has been poor hitting as low as less than 19% as driven by low levels of private credit, high interest rate spreads, high levels of non-performing loans, poor asset quality, and operational inefficiencies. A similar condition is evident in Botswana where the banking sector managed to maintain stability, soundness and solvency of the banks despite the global financial crisis between 2007 and 2012 (Bank of Botswana, 2013). All this could be as a result of ineffective implementation of financial risk management in these financial institutions.

Management of financial risks is a great ideal in business operations. This is because it helps to minimize the losses which could arise by identifying them, analyzing them, assessing them, controlling and possibly avoid or eliminate them (Epetimehin & Obafemi, 2015). In the banking sector, the risks that financial institutions are concerned about are referred to as financial risks and financial risk management is a process undertaken by the financial institutions to control these risks (Al-Tamimi et al., 2015). Financial risk management incorporates analyzing and understanding the kind of risk the institution is facing, devise the right strategies to address them putting in consideration the internal priorities of the institution and policies (Dionne, 2013). For the case of this study, the financial risks considered included liquidity risk, credit risk and operational risks.

The issue of impact of financial risk management on financial performance has seen an extensive amount of empirical investigation in the recent years. The subsequent myriad of such studies signify the important role played by the financial system of a country as a foundation of a functioning and efficient economy. At the heart of an economy's financial system is the banking industry; which in developing countries; is the biggest player in the role of financial intermediation (Hawkins and Mihaljek, 2011). However, Mutukua (2016) postulates that all banks operate in an unstable and fragile environment and confront various risks which may, in one way or the other, lead to the closure of a commercial bank as a result of inability to meet its financial obligations. More importantly, Shah (2014) denotes that in the financial system, there are at least three broad categories of risks being; financial risk, business risk and operational risk. Further, and as noted by Carey (2011), these risk exposures have made banking a business of risk, hence efficient risk management is critical to the survival of commercial banks.

Despite the perceived positive role of risk management on improving bank financial performance, studies in this area have offered inconsistent results. In one end of the spectrum are studies that assert a positive relationship and among others: Kenya (Maritim, 2013; Mwangi, 2014); United Kingdom (Saeed & Zahid, 2016); Nigeria (Adeusi et al., 2014; Olamide et al., 2015). The positive role of risk management on bank performance could be seen in terms of better management of funds, and reducing unnecessary costs such as doubtful advances (Mutukua, 2016). At the opposite end are those studies that stress that a negative relationship exists: India (Shetty and Yadav, 2019); Kenya (Juma & Atheru, 2018). The negative relationship

could be due to less leverage and risk taking, as risk management practices get tightened and this reduces bank profitability.

According to studies, commercial banks play an important part in any economy. With the mobilization of savings, commercial banks serve as financial resource conduits (Franklin & Elena, 2012). Major commercial banks in Uganda, including Centenary Bank, Stanbic Bank, Absa Bank, Guaranty Trust Bank, Diamond Trust Bank, Finance Trust Bank, Equity Bank, DFCU Bank, Opportunity Bank, Orient Bank, UBA Bank, Cairo Bank, BRAC Uganda Bank, Housing Finance Bank, Bank of Africa Uganda, Bank of Baroda, Tropical Bank, KCB Bank, and Post Bank, have their main offices and branches in Kampala city. With a wide range of customers from Central Uganda's rural, urban, and peri-urban areas, these banks serve a larger market share. Having such a large and varied market share, the majority of banks are exposed to significant financial risk, which, if poorly managed, can increase loan defaults and non-performing loans, negatively affecting financial performance of the bank in terms of profitability, liquidity and solvency.

The effective management of financial risks is critical to financial growth within Centenary Bank. The identification and management of risk remains a high priority and underpins all business activities. According to the Centenary Bank annual report 2019, the major risks to which Centenary Bank is exposed to include credit risk, operational risk, compliance risk, business risk, strategic risk, market risk, liquidity risk and taxation risk. Occurrence of these risks would cause of significant negative impact on profitability of to the bank (Centenary Bank, 2019).

Risk management in financial institutions of Uganda has been implemented through the guidance of essential guidelines from Bank of Uganda such as the guidelines issued in 2010 (Bank of Uganda, 2013). More to that, the Bank of Uganda introduced the Credit Reference Bureau (CRB) in its struggle to alleviate risks in the banking sector (Bank of Uganda, 2021) and the financial institutions and their borrowers are required to register. The above background shows that both the banks and the regulatory authorities have been working together to mitigate the financial risks that affect the commercial banks and other financial institutions. Understanding the kinds of financial risks that a bank is mostly exposed to and how they possibly affect its financial performance is the first step to design clear mitigation measures. Therefore, this study

explored the relationship between financial risk management and financial performance of commercial banks in Centenary Bank.

1.2 Problem statement

Commercial banks in Uganda have implemented a number of financial risk management procedures, such as credit risk identification, assessment, monitoring, and control, in the hopes of enhancing financial performance (BoU, 2020). However, with all these practices in place, Uganda's banking sector has experienced poor financial performance over the years, where both portfolio at risk and bad debts written-off have scaled upwards (Bank of Uganda Annual Supervision Reports, 2014-2020). The case in point is Centenary Rural Development Bank Group Limited which runs the risk of creating diversified losses for itself or for its stakeholders during its day-to-day operations. For instance in 2019, Centenary Bank reported a credit loss from loans accruing to Shs 31,916 million which was even higher than that of 2018 of Shs 28,879 million (Centenary Bank, 2019). More so, financial performance in the bank has been reported to decrease between 2018 and 2019. The financial performance of the bank as measured by its return on equity (ROE) was 28.3% which was lower than that of 2018 of 24.8%, a reflection of decline in financial performance (Centenary Bank, 2019). However in 2020, its financial performance as measured by ROE also dropped to 19.2% (Centenary Bank, 2020). It is however not known whether this is as a result of failure to manage credit risks by the bank

Furthermore, previous studies on financial risk management and performance have been conducted in relation to other aspects. For example, Mutangili (2011) did a study on credit risk management and nonperforming loans and established that a sharp increase in NPL triggers long-lived tailwinds that cripple macroeconomic performance from several fronts. Bessis (2012) also did a study on the risk management practices adopted by banking institutions in Kenya. Korir (2012) also did a study to establish the effects of credit risk management practices on loan performance of deposit taking microfinance institutions in Kenya. However, none of these studies have been conducted to ascertain the extent to which financial risk management affects the financial performance of commercial banks in Uganda like Centenary Bank which created a gap that necessitated the need to conduct this study.

1.3 General objective of the study

The general objective of the study was to explore the relationship between financial risk management and financial performance of commercial banks in Uganda: a case of Centenary Bank, Mukono branch.

1.4 Specific objectives of the study

This study was guided by the following specific research objectives:

- i. To examine the relationship between financial risk identification and financial performance of Centenary Bank, Mukono.
- ii. To establish the relationship between financial risk assessment and financial performance of Centenary Bank, Mukono.
- iii. To assess the relationship between financial monitoring and financial performance of Centenary Bank, Mukono.

1.5 Research questions

The study aimed at answering the following questions:

- i. What is the relationship between financial risk identification and financial performance of Centenary Bank, Mukono?
- ii. What is the relationship between financial risk assessment and financial performance of Centenary Bank, Mukono?
- iii. What is the relationship between financial monitoring and financial performance of Centenary Bank, Mukono?

1.6 Scope of the study

1.6.1 Content Scope

The study focused on the relationship between financial risk management and financial performance of commercial banks in Uganda where financial risk management is the independent variable and financial performance the dependent variable. Financial risk management was measured using the practices which include; financial risk identification,

financial risk assessment and financial monitoring. On the other hand, financial performance was measured using; profitability, return on equity, return on assets, cost income ratio and total capital ratio.

1.6.2 Time scope

The study was conducted within a time scope of four months from May to August 2023 since it was the time allocated for research by the university. However, for secondary data, the researcher analyzed information within a time scope of five (5) years from 2018 to 2022.

1.6.3 Geographical scope

This study was carried out in Centenary Bank, Mukono Branch located on Plot 115-117, Kampala-Jinja Road, Mukono, Uganda. It was selected because it is one of the big commercial banks in Uganda that has faced challenges when it comes to financial performance that are likely to be detrimental to their overall performance as a banking institution.

1.7 Significance of the study

To the commercial banks, the study provides information on the effectiveness of financial risk management practices in improving the financial performance of the bank. The study provides recommendations to the commercial banks on the specific financial risk management they should adopt to improve financial performance.

The study benefits policy makers like the Central Bank of Uganda because it is a reference point for designing appropriate policies for commercial banks in Uganda to put in place proper financial risk management to improve return on assets, investment and equity.

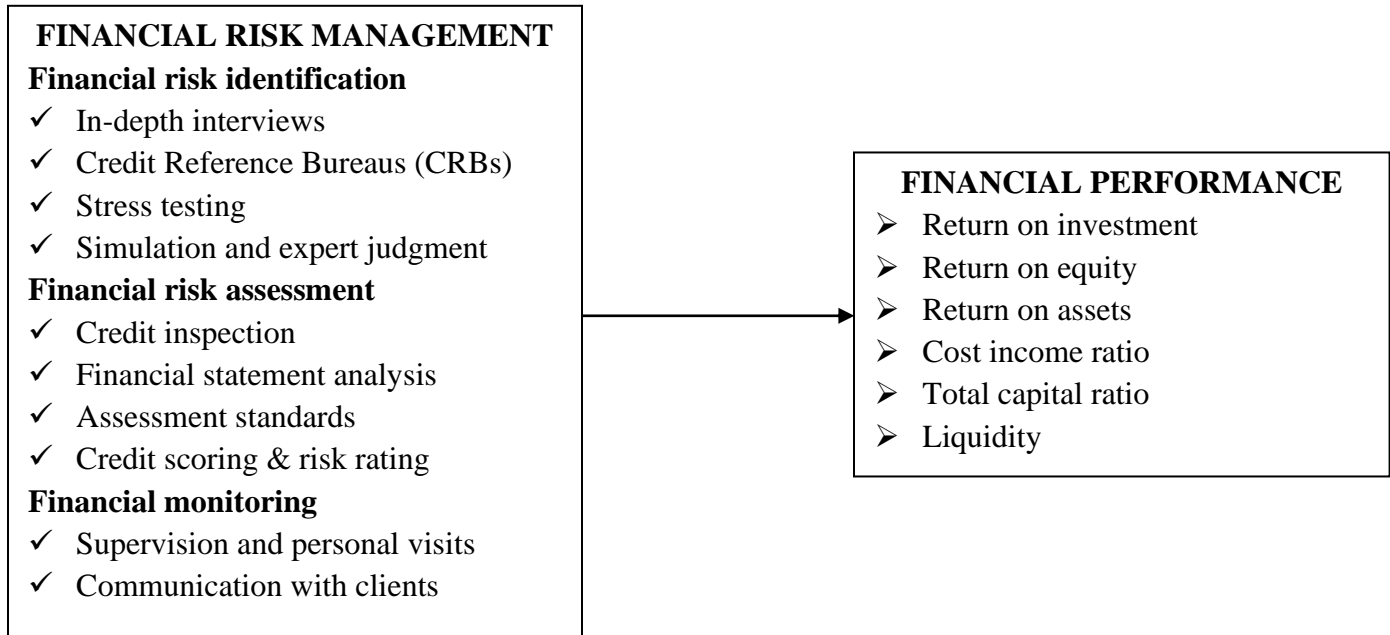
The study also benefits the researchers and academicians as it acts as a source of additional literature to the already existing knowledge about financial risk management and financial performance in the banking sector. Finally, the study will also assist the researcher to complete her course and graduate since research is one of the requirements of the university for all students of the School of Business.

1.8 Conceptual framework

Figure 1: Conceptual framework

Independent variable

Dependent variable



Source: Adapted from (Akong'a, 2014; Al-Tamimi & Miniaoui, 2017) and modified by the researcher (2023).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the literature that was reviewed on the basis of the study objectives. The literature was selected, studied and arranged according to the themes relating to financial risk management and financial performance of commercial banks. The chapter presentation was under three sections; review of various theories and concepts, highlighting the objectives of the study and synthesis of literature and research gap analysis. Literature sources included; books and journals aimed at providing insight in what had already been done within this area of study.

2.1 Concept of Financial Risk Management

Financial risk, according to Myint & Famery (2012), is the possibility of financial loss as a result of an entity's exposure to unfavorable circumstances. Financial hazards can be categorized in a number of ways. Interest rate, currency, inflation, credit, and commodity risks are the five main financial risks identified by Myint & Famery (2012). The four financial hazards identified by Fang (2016) are the investment risk, financing risk, income distribution risk, and capital recovery risk. Credit, liquidity, and interest rate concerns are described in (Tafri et al., 2009) study. The three mentioned above, along with capital risk and solvency risk, are listed by Haque & Wani (2015). The classification of financial risk is not universal.

Financial risk literature shows that most indicators of financial risk rely on financial ratios. These can be split into liquidity, coverage, operating, leverage and investment ratios. Liquidity ratios measure the ability to cover current obligations using liquid assets (Lucic, 2014). They include the current ratio, whose ideal levels are between 1.5 and 2, and the quick ratio, whose ideal value is 1 (Błach, 2010). Coverage ratios measure the ability to service debt. Operating ratios measure management performance (Lucic, 2014). Financial leverage measures how sensitive net income is to variations in operating results (Solomon & Muntean, 2012) and to capital structure risk (Błach, 2010). Investment risks are measured using efficiency ratios (Li & Si, 2013).

Financial risk management is a process to deal with the uncertainties resulting from financial markets (Christoffersen, 2011). It involves assessing the financial risks facing an organization

and developing management strategies consistent with internal priorities and policies. Addressing financial risks proactively may provide an organization with a competitive advantage. It also ensures that management, operational staff, stakeholders, and the board of directors are in agreement on key issues of risk (Jorion, 2007). Managing financial risk necessitates making organizational decisions about risks that are acceptable versus those that are not. The passive strategy of taking no action is the acceptance of all risks by default. Organizations manage financial risk using a variety of strategies and products. It is important to understand how these products and strategies work to reduce risk within the context of the organization's risk tolerance and objectives (García & García, 2017).

2.2 Concept of Financial Performance

According to Ahmed and Nauman (2012), financial performance refers to a commercial bank's capacity to use strategic operational and investment decisions to accomplish a company's financial stability. It serves as a gauge for the bank's progress toward its financial objectives, which are determined by financial benchmarks and objectives.

The financial performance of commercial banks is measured by their profitability which is generally measured in ratios. The ratios used to measure the performance include Return on Assets (ROA), the Return on Equity (ROE), net profits relative to total assets of the firm or, net profits relative to the shareholders' funds and Return on Assets (ROA) ratio (Mallisa, 2013). Return on Assets shows how well the resource of the bank may be used to enhance profitability and a higher ROA indicates efficient utilization of the bank's resources, thus maximizing the shareholders wealth (Mwonge, 2012). Return on Equity and Return on assets are the most commonly used ratios to measure financial performance of commercial banks. A good financial performance of the bank is indicated by return on equity of between 15% and 30%, while return on assets is at least 1% (Ongore & Kusa, 2013).

In Uganda, there has been tremendous growth in the commercial banking sector with over 27 banks operating in Uganda. The commercial banking industry in Uganda is diverse, involving local private and foreign commercial banks. The banking sector in Uganda has been characterized by steady progress over the years. In 2003, there were 14 commercial banks with a total asset base of UGX 5,116 billion, representing average assets per regulated bank of UGX.

370 billion. By the end of the year 2019, the sector's total assets had risen to UGX. 33,380 billion, representing average total assets per regulated bank of UGX. 1,280 billion, representing a percentage asset base growth of 251% over the 16 years (Ahumuza, 2020). The performance of commercial banks of Uganda has been increasing at a slow rate in the past 2 years (Bank of Uganda, 2021). The profitability of Commercial Banks in Uganda has increased though marginally by 6.4% to UGX 855Bn, while the value of non-performing loans was largely unchanged throughout the course of the year ending December 2020 (Bank of Uganda, 2021).

2.3 Relationship between financial risk identification and financial performance

Effective management of financial risks starts with identification. For proper management of credit risk, bank management team need to be aware of their inherent risks in the course of their operations. Risk identification is linked with threats that a business face on a daily basis. The threats may exist with various entities, most important with shareholders, customers and legislative bodies such as the government. The chosen method of identifying risks may depend on culture, industry practice and compliance. During risk identification, the most important thing is to make sure that an appropriate environment for credit risk is established (Kromschroder & Luck, 1998). This responsibility is taken up by the board of directors in any organization with regard to the review of strategies and policies of credit risk management.

A risk management strategy according to Shu (2014) should identify among other things, the risk tolerance level of the bank and the profitability level of the bank. Risk identification include among other things inspection of branch manners and the analysis of financial statements of the bank. The key techniques of managing risk include formulation standards, analyzing credit worthiness of customers, rating of risk and collateral requirements.

Sonali (2015) argues that the senior management team of commercial banks should actively implement credit risk management strategies that the board of directors will have approved. Implementation includes making sure that the credit activities of the bank are aligned with the established strategy, that the established procedures have been formulated and implemented and that loan review and approval responsibilities have been properly and clearly assigned. According to Valsamakis et al. (2015), systems used in identification and measurement of credit risk should be aligned with the complexities and the nature of operations in the bank. Such

systems should offer information that is accurate, timely and adequate for the bank to effectively identify and measure its credit risk exposure. Senior management team should also ensure that independent and period internal assessments are conducted with regard to credit granting.

Ensuring that adequate and timely risk identification is performed is the responsibility of the top management at the financial institution. The top management staffs are tasked by the directors of the organization to identify the potential risks that they may face while handling different operations in the firm (Tabak, Fazio & Cajueiro, 2012). The risk management strategy that is adopted by the bank should be one that reflects on the tolerance level set when handling risky operations. Acemoglu, Ozdaglar and Tahbaz-Salehi (2015) noted that top management team assigns the risks to specific set of teams to handle it and manage it. The risk management teams are clearly coordinated within the organization to ensure each identified risk is properly handled to prevent losses. In any case, the sooner risks are identified, the sooner plans can be made to mitigate or manage them.

Mwangi and Muriuki (2013) investigated risk management in the Kenya Oil industry. The study established that the Working Capital (WC) requirement had gone up because of rising crude prices and upfront taxes payments and secondly unit margins had shrunk overtime. As a survival strategy the industry was forced to diversify to other means and ways to stay afloat. From the foregoing, oil sector due to its nature had to engage in credit for market share and sales volume. The multiplier effect was credit risk coupled with high liquidity needs. According to Waemustafa and Sukri (2015), risk identification is the foundation of managing risk among lending institutions. This should be in a transparent manner.

2.4 Relationship between financial risk assessment and financial performance

Many studies have been done on analysis and assessment of risk in view of mitigation and measurement of risk. It is however that various risk is classified according on their possible and likely damage (Fuser et al, 1999). This helps management in classification of risks threatening business survival and existence. According to Waweru and Kalani (2014), an inverse relationship exists between the expected loss and its likelihood. Thus, there are some risks that would result into large affect to an organization including fire, earthquake while other risks like interest rates

only results into relatively small challenges and losses. In United Arabs Emirates, Al-Tamimi and Al-Mazrooei (2007) noted that analysis and assessment of risk as risk management practices have significant effect on performance of commercial banks. In the UAE banks, they have a clearly written down procedures for appraising the risk, in terms of possible losses, severity and chances of it occurring.

Bhattacharya (2011) argues that risk analysis should be done in their correct contexts, for instance, credit risk should be analyzed in the context of cash flow projections and simulations. This will allow financial institutions like banks to implement the correct risk measures on risks and train well its staffs to handle the risks. Drzik (1995) also notes that larger banks in United States have improved and strengthened their risk management strategies that have positively affected their financial performance.

Traditionally, risk analysis was defined in terms of evaluation of the inherent risk. Today however, risk analysis goes beyond this as it entails decision making capabilities and process to improve risk management. Risk analysis can be done using intuitive techniques like brainstorming. According to Sorge (2014), although quick and simple, brainstorming has no wider approaches unlike other complex methods and techniques of risk assessment. According to Sundararajan (2007), the use of modern techniques to management risks especially with regard to credit and the whole banking risk is significant as far as performance of commercial banks is concerned. Wanjira (2010) carried out a study on how NPLs affected bank performance. The study established that commercial banks need to put in place sound practices of managing the level of their NPLs. The study revealed that traditionally, risk identification involved identification of liquidity, credit, market and operational risks.

2.5 Relationship between financial monitoring and financial performance

According to Read and Gill (2015), the risk manager is responsible for among other things, monitoring, measurement and control of credit risks. The duties of a risk manager include making sure possible events or future changes that could adversely affect the ability of the banking institution to withstand changes. For effective and sound management of credit risk, commercial banks should put in place adequate review and reporting structures so as to properly identify, assess and control the inherent risks. Risk monitoring ensures that the management used

in managing risks are aligned with the overall objectives of an organization. This helps a financial institution to establish mistakes at an early stage (Al- Tamimi & Al Mazrooei, 2007). Risk monitoring according to Epure and Lafuente (2012) takes place at the last stages of risk management process.

According to Parrenas (2005), investors and other stakeholders of an organization can express their demands in judging efficiency and effectiveness of an organization because of their rights in an organization. Shareholders rely on director's report to determine how knowledgeable an organization is with regard to credit risk management practices and how they have affected organizational performance (Chen & Pan, 2012). Rajan (2014) indicated that many organizations have put in place sophisticated risk monitoring models. However, these models in most organization are at implementation stage.

According to Patersson and Isac (2014), credit risk monitoring is divided into three stages namely simple risk control, estimation default probability and linking economic capital and return. It is important that commercial banks set minimum rates of returns to be obtained from every portfolio. In an attempt to assess how banking regulation affected performance of commercial banks, Ben-Naceur and Omran (2009) noted that bank capitalization and credit risk have positive and significant impact on banks' net interest margin, cost efficiency and profitability.

Ngare (2008) carried out a study on how credit risk management practices affected performance of commercial banks. Specifically, the study examined the specific inherit risks and possible solutions to these challenges. The study collected primary data using questionnaires. The analyzed findings indicated that qualitative loan assessment tools and methods were used by lending and other banking institutions. Felix and Claudine (2008) examined how credit risk affected performance of commercial banks. Performance was measured using both return on equity and return on assets. The study established that credit risk had an influence on performance of commercial banks. In Sweden, Juanjuann et al. (2009) examined how credit risk management affected profits of commercial banks. The findings indicated that credit risk had a significant and inverse relationship with profitability of commercial banks. This shows that a decrease in profitability of commercial is explained by an increase in credit risk.

Kithinji (2010) investigated the effect of management of credit risk on profitability of commercial banks. The study was done in Kenya using data collected over a period 2004-2008. The collected data was analyzed using SPSS software. From the findings, most performance of commercial banks is not explained by the level of their NPLs and the amount of credit. Chen and Pan (2012) examined carried out a study in Taiwan on how credit risk affected performance of commercial banks. Data was collected over a period of 2005 to 2008. Credit risk was assessed by financial ratios. From the findings, credit risk management practices affected performance of the banking sector. Bessis (2010) analyzed how risk management practices affected financial performance. This study was done in Malaysia. Both primary and secondary data was used in this study. From the findings, management of risk significantly contributed towards performance of commercial banks.

2.6 Research gap

The reviewed literature indicated various studies that have been conducted to relate financial risk management and the financial performance of commercial banks. For instance the studies that have been conducted such as Afriyie & Akotey (2012), Ahmed & Nauman (2012), Akong'a (2014) Eppy (2005), Ismail (2010), Sathyamoorthi, Mapharing, Mphoeng, & Dzimiri (2020) among others have shown mixed findings whereby both positive and negative effects have been reported. It has also been observed that these studies were not conducted using uniform methods and were conducted in different contexts. In particular, there was a big empirical literature gap existing in Ugandan context about the financial risk management and how they affect the financial performance of commercial banks.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter explains the methodology that was used to conduct the research, procedures of data collection. Inclusive is the research design, the study area and the population, sampling procedures, sampling size and composition, data collection methods, data processing data analysis methods, data quality control, reliability and ethical consideration.

3.1 Research design

According to Ahuja (2009), research design is defined as planning the strategy of conducting research. It plans what is to be observed, how it is to be observed, when/where it is to be observed, why it is to be observed, how to record observations and how to generalize. The study involved the use of cross-section survey research. Cross-section survey research entails the collection of data to make inferences about the population of interest at one point in time. It was used since it can investigate the effects of various demographic factors (age, for example) on individual differences. In addition, correlation and regression analysis was used to examine the relationship between financial risk management and financial performance of commercial banks. This research design was used because it reduces time wastage and costs and it also gives useful conclusions in the form of statistics and in-depth details about the study.

The research design also involved the use of quantitative and qualitative research approaches. In natural sciences and social sciences, quantitative research approach is the systematic empirical investigation of observable phenomena via statistical, mathematical or numerical data or computational techniques (Trochim, 2006). Quantitative research approach was used because it is more reliable and objective, it helped the researcher in use of statistics to generalize the findings, it also helped in reducing and restructuring complex problems to a limited number of variables, it also helped in testing theories/hypotheses and lastly, it helped in determining the relationship between the two variables. Questionnaires both closed ended and open ended were used to gather quantitative data.

In the handbook of qualitative research, Denzin and Lincoln (2005) describe qualitative research as one that involves “an interpretive naturalistic approach to the world. This means that qualitative research studies things in their natural settings, attempting to make sense of or interpret phenomena in terms of the meanings people bring to them.” Qualitative research approach was used because it helps in providing details about human behavior, emotions and personality characteristics of the respondents plus details on the topic under study. Interviews were used to gather qualitative data.

3.2 Study area and population

The study was carried out in Centenary Bank, Mukono Branch located on Plot 115-117, Kampala-Jinja Road, Mukono, Uganda. It was selected because it is one of the big commercial banks in Uganda that has faced challenges when it comes to financial performance that are likely to be detrimental to their overall performance as a banking institution. According to the human resource officer of the bank, there are a total of 55 employees working in the selected departments in Centenary Bank, Mukono branch and these were included in the study as the study population.

3.3 Sample Size and Sample Determination

The sample size was 48 respondents Slovin’s formula got from different departments in the bank as shown in the table below;

Table 1: Population and sample size

Departments	Population	Sample size	Sampling method
Administration	5	4	Purposive sampling
Credit department	23	20	Simple random sampling
Operations department	15	14	Simple random sampling
Auditing department	7	6	Simple random sampling
Information & Technology department	5	4	Simple random sampling
TOTAL	55	48	

Source: *Centenary Bank, Mukono branch (2023)*

3.3.1 Sample size determination

According to Katamba & Nsubuga (2014) sample size is the portion or subset of the total population. The sample size was determined by the sample calculation formula by Slovin's formula as follows;

$$n = \frac{N}{1 + N(e)^2}$$

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

"N" (population) = 55 staff

$$n = \frac{55}{1 + 55(0.05)^2}$$

$$n = \frac{55}{1 + 55(0.0025)}$$

$$n = \frac{55}{1 + (0.1375)}$$

$$n = \frac{55}{1.1375}$$

n = 48

Therefore from the table above, the sample size was 48 respondents got from a total population of 55 management and employees from Centenary Bank, Mukono branch. The study also included; the Risk Management Manager and the Bank Manager who participated in this study as the key informants.

3.4 Sampling methods

The sampling methods provide information required about the selection of the samples. It also provides a detailed foundation where the research sample can be drawn, and for a population that is enough for a high quality selection of the participants (Lewis and Ritchie, 2003). The researcher used both purposive and simple random sampling methods. Purposive sampling method was used to select the Risk Management Manager and the Bank Manager who

participated in this study as the key informants. The reason for the use of purposive sampling method was because it helps in the selection of top management because of their knowledge about the subject study and given that they were few in number.

The employees in the other departments in Centenary Bank, Mukono branch were selected using simple random sampling given that these were big in number and using this method eased their selection and gave each person a chance to participate in the study, simple random sampling was preferred because its procedure is unbiased and prevents bias in their work and makes research on large populations more practical.

3.5 Data collection methods and instruments

The researcher collected data from respondents by use of questionnaire survey and interviews as the data collection methods.

3.5.1 Questionnaire survey

A questionnaire survey is a data collection method for collecting information from respondents using standardized questionnaires (Mugenda & Mugenda, 2003). Amin (2005) recommends using questionnaire survey because it provides a high level of general capability in representing a large population. Due to the usual huge number of people who answers survey, the data being gathered possess a better understanding of what is being studied.

Here, the data collection instrument was a questionnaire. The researcher used both closed-ended and open-ended questionnaires in the study. Closed-ended questions were used because they are easy and quick to answer and because they help in improved consistence of the responses. Open-ended questions were also used because they do not place any limits on the response which means that the survey respondents were able to tell the researcher anything they felt was relevant and anything they wanted the researcher to know. The questionnaires were administered to the personnel in the other department positions in Centenary Bank, Mukono branch. A five (5) Likert scale where; 5 (Strongly Agree), 4 (Agree), 3 (Not Sure), 2 (Disagree), 1 (Strongly Disagree) was used on the self-administered questionnaires;

3.5.2 Interviews

According to Ahuja (2009), an interview is a two-person conversation initiated by the interviewer for the specific purpose of obtaining research-related information and focused by him on the content specified by the research objectives of description and explanation. The instrument of data collection here was an interview guide which refers to a set of structured questions in which answers were recorded by the interviewer herself (Ahuja 2009). It was used because it gives the research control over the line of questioning hence time saving. Interviews were conducted in a quiet place without noise with the key informants who are top management (administration) especially the Risk Management Manager and the Bank Manager of Centenary Bank, Mukono branch and then the purpose of the interview were explained followed by addressing the terms of confidentiality. The format of the interview which was an informal conversational interview was established where questions were asked and answers recorded by the interviewer.

3.6 Data collection procedure

The researcher obtained an introductory letter from the School of Business in Uganda Christian University, after which she sought for permission from the different respondents in Centenary Bank, Mukono branch to use as a case study. The researcher then approached various respondents to conduct interviews and distribute the questionnaires.

3.6 Quality and control

3.6.1 Validity

According to Cohen, Manion and Keith (2007), Validity is ensured by; choosing an appropriate scale, ensuring that there are adequate resources for the required research to be undertaken, selecting an appropriate methodology for ensuring the research questions, avoiding having too long or too short an interval between pre-test and post-test, ensuring standardized procedures for gathering data or for information administering tests, and tailoring the instruments to the concentration span of the respondents. Validity was done in order to find out whether the questions are capable of capturing the intended data.

Instruments are supposed to measure what they are supposed to measure, the researcher ensured the validity of the tools used in data collection first by carrying out pre-test where 10 questionnaires were distributed to 5 employees of Centenary bank, the researcher tried by all means to be highly involved in data collection and analysis so as to avoid number of errors in her research.

3.6.1 Reliability

Mugenda and Mugenda (2003) defined reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trials. An instrument is reliable if it measure consistently what it is supposed to measure even if other researchers administer it, it should be able to produce the same results to ensure reliability. A pilot study was carried out on the same few respondents on this research topic before the questionnaire were sent to different respondents.

3.7 Data analysis

3.7.1 Analysis of quantitative data

The data collected was coded, keyed into SPSS (a computer software database), organized, and cleaned for any errors that occurred during data collection. The data was then analyzed using statistics with aid of the SPSS and Microsoft Excel (computer software). Qualitative statistical techniques were used to describe and summarize data. The results were then interpreted in the form of descriptive statistics the frequencies and percentages. The findings were presented in form of tables and figures.

3.7.2 Analysis of qualitative data

This involved content analysis. Thus, qualitative data was edited and reorganized into meaningful phrases. In other words, a thematic approach was used to analyze qualitative data where themes, categories and patterns were identified. The recurrent themes, which emerged in relation to each guiding question from the interviews, were presented in the results, with selected direct quotations from participants presented as illustrations.

3.8 Ethical considerations

According to Nsubuga & Katamba (2013) ethical issues include setting clearances from the ethical body and consent of the respondent. It refers to the moral justification of the investigation or intervention; as regards the minimal about disregard, safety and psychological wellbeing of the person and or community. The researcher exhibited a high level of ethical behaviour in the course of implementing the study; confidentiality where the information got from the field was only used for academic purposes. There was also anonymity of the respondents exhibited so that they could get the freedom to express themselves. More so, informed consent was obtained from all respondents before including them in the study.

3.9 Limitations and delimitations of the study

Some respondents were not willing to provide information because of being suspicious of where the information would be taken. This was solved through the nice remarkable reputation in the study context as a learning institution and also obtaining an introductory letter from the university.

The researcher was limited by funds that were needed to facilitate the research such as motivating the respondents, printing fees and even daily transport to the organization to collect data. However the researcher used self-initiatives and strategies to mobilize financial assistance from family.

Some people delayed to bring back the questionnaires which affected the researchers target time planned to analyze his study. This was solved by issuing more questionnaires beyond the target and this helped her to cover up the gaps for those who failed to return the questionnaires.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND DISCUSSION OF RESULTS

4.0 Introduction

This chapter presents and discusses the results of analysis that has been done to look at the specific objectives of the study and in relation to the reviewed literature. The study was carried out using questionnaires and interviews with employees and management from Centenary Bank, Mukono branch. The findings are presented with the help of tables and bar graphs for purposes of clarity and interpretation.

4.1 Response rate

A total of 48 questionnaires were distributed and 44 were fully filled and returned. The response rate for the questionnaires was therefore 91.7% as shown in the table 2 below;

Table 2: Response rate

Response Rate	Sample Size	
	Frequency	Percentage (%)
Received	44	91.7%
Non Response	4	8.3%
Expected Response	48	100.0%

Source: *Primary data*

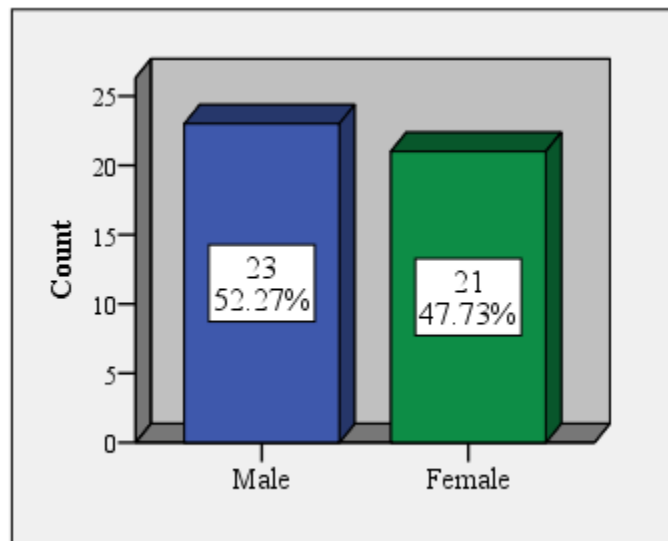
Table 2 above shows a summary of the response rate, indicating data was collected from a reasonable number of respondents, hence, the collected data and the findings are sufficiently representative of the population, based on Creswell (2017) indication that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and above is excellent. Therefore the response rate of 91.7% was excellent and sufficient enough. The reason as to why the research was unable to get 100% response rate was due to the fact that most of the respondents were unwilling to participate yet there was little time left for report submission.

4.2 Findings on demographic characteristics of respondents

4.2.1 Gender of the respondents

The figure below summarizes the gender of the respondents that are employees of Centenary Bank-Mukono and the data in the figure was interpreted below.

Figure 2: Gender



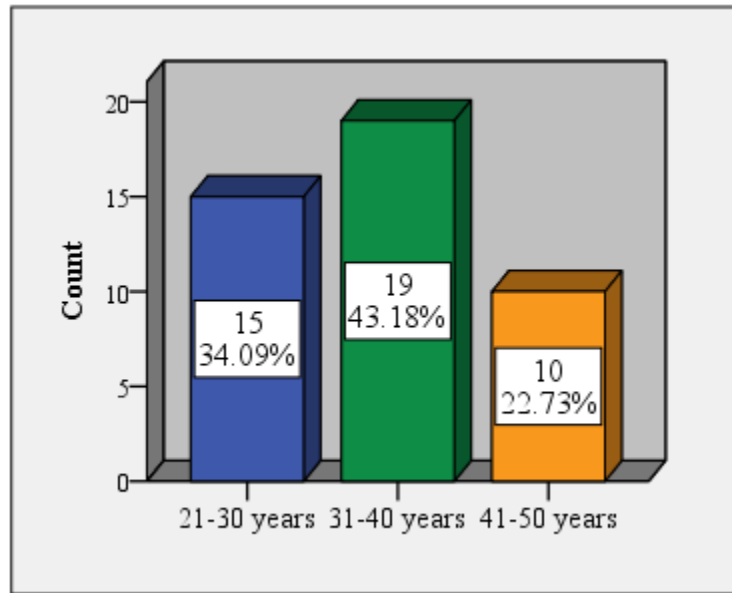
Source: *Primary data*

Findings in the figure 2 above show that the majority of the questionnaires were filled by males represented by 52.3% and the rest were females represented by 47.7% and therefore, there were more male respondents than female respondents in this survey. However, the inclusion of both male and female in the survey was to get a balance view of responses from different people in the commercial bank.

4.2.2 Age of the respondents

The figure below summarizes the age of the respondents that are employees of Centenary Bank-Mukono and the data in the figure is interpreted below.

Figure 3: Age



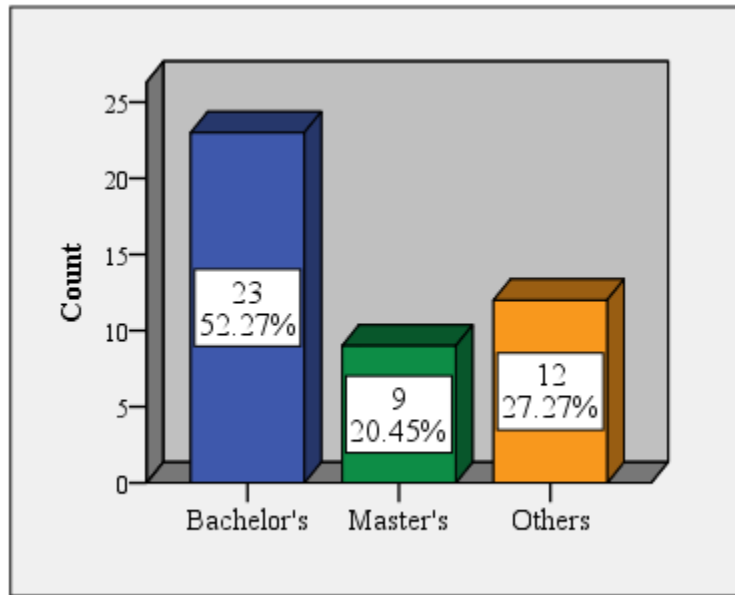
Source: *Primary data*

Findings in the figure 3 above show that the vast majority of the respondents fell between the age group of 31-40 years represented by 43.2%, followed by the respondents who fell between the age group of 21-30 years represented by 34.1%, whereas 22.7% of the respondents fell in the age group of 41-50 years. This therefore implies that there was no age discrimination since information was gotten from people with different age groups. It also shows that there is a mixture of experience and new employees that have come on board which is good for the sustainability of the commercial bank.

4.2.3 Education level of the respondents

The figure below summarizes the education level of the respondents that are employees of Centenary Bank- Mukono and the data in the figure was interpreted below.

Figure 4: Level of education



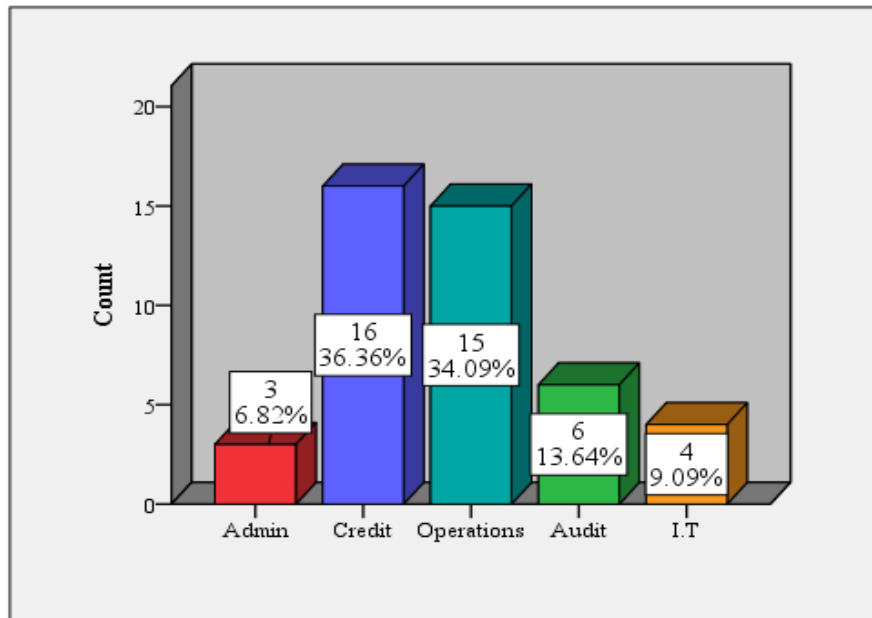
Source: *Primary data*

Findings in the figure 4 above revealed that employees of Centenary Bank- Mukono are well educated since majority of the respondents represented by 52.3% hold bachelors' degrees, followed by 27.3% of the respondents who have attained other qualifications like ACCA, CPA, and Post Graduate Diplomas, whereas 20.4% of the respondents noted that they hold master's degrees. This implies that Centenary Bank- Mukono employs well qualified employees due to the nature of work employees are expected to perform. The education level of respondents was very necessary in this study in order to get views and opinions from people with different levels of education.

4.2.4 Department respondents belong to

The figure below summarizes the departments the responds that are staff of Centenary Bank-Mukono belong to and the data in the figure was interpreted below.

Figure 5: Department



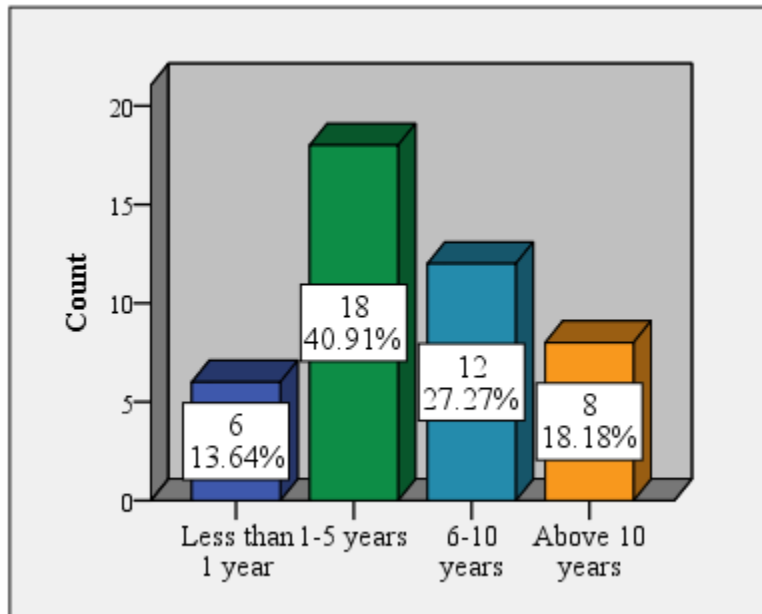
Source: *Primary data*

Findings in the figure 5 above revealed that majority of respondents represented by 36.4% are from the credit department in Centenary Bank, followed by those who are from the operations department in Centenary Bank represented by 34.1%, followed by those who are from the audit department in Centenary Bank represented by 13.6%, followed by those who are from the Information Technology department represented by 9.1%, whereas those who from the administration department in Centenary Bank constituted the minority represented by 6.8% each of the total population. This implies that information was gotten from different departments in the commercial bank (Centenary Bank-Mukono branch) which helped in gathering of information and different views of people about the topic in particular.

4.2.5 Period spent working with Centenary Bank- Mukono Branch

The figure below summarizes the period respondents that are employees of Centenary Bank- Mukono have spent working there and the data in the figure was interpreted below.

Figure 6: Period spent working with Centenary Bank-Mukono Branch



Source: *Primary data*

Findings from the figure 6 above show that majority of respondents represented by 40.9% have spent between 1-5 years working with Centenary Bank-Mukono branch, followed by those who have spent 6-10 years working with Centenary Bank-Mukono branch represented by 27.3%, followed by those who have spent more than 10 years working with Centenary Bank-Mukono branch represented by 18.2%, where those who have spent less than 1 year working with Centenary Bank-Mukono branch represented the minority 13.6% of the total population. The findings imply that the respondents have the necessary and efficient knowledge about the topic under study since majority of the respondents have spent reasonable time working with Centenary Bank-Mukono branch.

4.3 The relationship between financial risk identification and financial performance of Centenary Bank, Mukono

Table 3 summarizes respondents' responses on the relationship between financial risk identification and financial performance of Centenary Bank, Mukono by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

Table 3: The relationship between financial risk identification and financial performance of Centenary Bank, Mukono

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	F (%)	F (%)	F (%)	F (%)	F (%)
The bank has well-defined procedures and systems in place to identify potential financial risks	19 43.2%	13 29.5%	8 18.2%	2 4.5%	2 4.5%
The bank has robust mechanisms to identify and mitigate operational risks in its day-to-day operations	10 22.7%	20 45.5%	7 15.9%	4 9.1%	3 6.8%
The bank encourages employees to report potential risks and provides channels for their identification	10 22.7%	24 54.5%	8 18.2%	2 4.5%	00
The bank effectively identifies potential credit risks associated with loan portfolios	13 29.5%	23 52.3%	3 6.8%	5 11.4%	00
The bank demonstrates a strong commitment to identifying and managing liquidity risks	15 34.1%	12 27.3%	13 29.5%	1 2.3%	3 6.8%
The bank employs advanced technology and tools to identify financial market risks	18 40.9%	23 52.3%	3 6.8%	00	00

Source: *Primary data*

Table 3 represents the descriptive statistics on the relationship between financial risk identification and financial performance of Centenary Bank, Mukono. According to study, 43.2% strongly agreed and 29.5% of the respondents agreed that the bank has well-defined procedures and systems in place to identify potential financial risks, 18.2% were not sure

whereas a total of 9% of the respondents disagreed and strongly disagreed with the statement. The study also found out that 22.7% and 45.5% of the respondents strongly agreed and agreed respectively that the bank has robust mechanisms to identify and mitigate operational risks in its day-to-day operations, 20.7% were not sure whereas 15.9%, 9.1% and 6.8% of the respondents disagreed and strongly disagreed respectively with the statement put across.

The study further contended that 22.7% and 54.5% of the respondents strongly agreed and agreed respectively that the bank encourages employees to report potential risks and provides channels for their identification, 18.2% of the respondents were not sure whereas 4.5% disagreed with the statement put across. The study found out that 29.5% and 52.3% of the respondents strongly agreed and agreed respectively that the bank effectively identifies potential credit risks associated with loan portfolios, 6.8% of the respondents were not sure whereas 11.4% disagreed with the statement put across.

The findings illustrated that 34.1% strongly agreed, 27.3% of the respondents agreed the bank demonstrates a strong commitment to identifying and managing liquidity risks, 29.5% were not sure while 2.3% and 6.8% of the respondents disagreed and strongly disagreed respectively with the statement put across. Lastly, the study further contended with the fact that 40.9% strongly agreed and 52.3% of the respondents agreed that the bank employs advanced technology and tools to identify financial market risks, whereas 6.8% of the respondents were not sure of the statement put across.

Therefore the major findings of the study illustrated that majorly, the bank has well-defined procedures and systems in place to identify potential financial risks and that the bank has robust mechanisms to identify and mitigate operational risks in its day-to-day operations which has helped the bank in improving on its financial performance in the long run which were represented by 92.4% and 76.1% of the respondents who agreed respectively. The findings of the study concerning the relationship between financial risk identification and financial performance of Centenary Bank, Mukono were further determined using Pearson's correlation that was conducted as shown below;

Table 4: Pearson’s correlation on financial risk identification and financial performance

Correlations

		Financial risk identification	Financial performance
Financial risk identification	Pearson Correlation	1	.663**
	Sig. (2-tailed)		.000
	N	44	44
Financial performance	Pearson Correlation	.663**	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 financial risk identification and financial performance of Centenary Bank, Mukono. This relationship is affirmed by ($r = .663^{**}$, $p < .05$). It should further be noted that the p-value is below the significance level of 0.05 which means that we accept the null hypothesis. This means that there is a significant positive relationship between financial risk identification and financial performance of Centenary Bank, Mukono.

The findings relate with the literature by Shu (2014) who argued that effective management of financial risks starts with identification. For proper management of credit risk, bank management team need to be aware of their inherent risks in the course of their operations. Risk identification is linked with threats that a business face on a daily basis. The threats may exist with various entities, most important with shareholders, customers and legislative bodies such as the government. The chosen method of identifying risks may depend on culture, industry practice and compliance. During risk identification, the most important thing is to make sure that an appropriate environment for credit risk is established.

4.4 The relationship between financial risk assessment and financial performance of Centenary Bank, Mukono

Table 5 summarizes respondents' responses on the relationship between financial risk assessment and financial performance of Centenary Bank, Mukono by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

Table 5: The relationship between financial risk assessment and financial performance of Centenary Bank, Mukono

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	F (%)	F (%)	F (%)	F (%)	F (%)
The bank has well-defined procedures and methodologies for assessing financial risks	15 34.1%	25 56.8%	1 2.3%	3 6.8%	00
The bank regularly reviews and updates its risk assessment processes to adapt to changing market conditions	19 43.2%	14 31.8%	10 22.7%	1 2.3%	00
The bank utilizes advanced tools and models to assess and quantify financial risks	18 40.9%	21 47.7%	2 4.5%	3 6.8%	00
The bank usually makes a thorough assessment of the key risks facing the bank and whether the bank has some strategies put in place to mitigate these risks	21 47.7%	18 40.9%	3 6.8%	2 4.5%	00
There is timely financial risk assessment conducted by the risk management team before losses are caused to the bank	13 29.5%	16 36.4%	10 22.7%	3 6.8%	2 4.5%
The bank ensures that risk assessments are conducted by knowledgeable and competent individuals	14 31.8%	22 50.0%	2 4.5%	6 13.6%	00

Source: *Primary data*

Table 5 represents the descriptive statistics on the relationship between financial risk assessment and financial performance of Centenary Bank, Mukono. According to study, 34.1% strongly

agreed and 56.8% of the respondents agreed that the bank has well-defined procedures and methodologies for assessing financial risks, 2.3% were not sure whereas a total of 6.8% of the respondents disagreed with the statement put across. The study also found out that 43.2% and 31.8% of the respondents strongly agreed and agreed respectively that the bank regularly reviews and updates its risk assessment processes to adapt to changing market conditions, 22.7% were not sure whereas 2.3% of the respondents disagreed with the statement put across.

The study further contended that 40.9% and 47.7% of the respondents strongly agreed and agreed respectively that the bank utilizes advanced tools and models to assess and quantify financial risks, 4.5% of the respondents were not sure whereas 6.8% disagreed with the statement put across. The findings illustrated that 47.7% strongly agreed, 40.9% of the respondents agreed that the bank usually makes a thorough assessment of the key risks facing the bank and whether the bank has some strategies put in place to mitigate these risks, 6.8% were not sure while 4.5% of the respondents disagreed with the statement put across.

The study further contended with the fact that 29.5% strongly agreed and 36.4% of the respondents agreed that there is timely financial risk assessment conducted by the risk management team before losses are caused to the bank, 22.7% of the respondents were not sure whereas 6.8% and 4.5% of the respondents disagreed and strongly disagreed with the statement put across. Lastly, the study illustrated that 31.8% strongly agreed and 50% of the respondents agreed that the bank ensures that risk assessments are conducted by knowledgeable and competent individuals, 4.5% of the respondents were not sure whereas 13.6% of the respondents disagreed with the statement put across.

Therefore the major findings of the study illustrated that majorly, the bank has well-defined procedures and methodologies for assessing financial risks and that the bank regularly reviews and updates its risk assessment processes to adapt to changing market conditions which has helped the bank in improving on its financial performance in the long run which were represented by 90.9% and 88.1% of the respondents who agreed respectively. The findings of the study concerning the relationship between financial risk assessment and financial performance of Centenary Bank, Mukono were further determined using Pearson's correlation that was conducted as shown below;

Table 6: Pearson’s correlation on financial risk assessment and financial performance

Correlations

		Financial risk assessment	Financial performance
Financial risk assessment	Pearson Correlation	1	.587**
	Sig. (2-tailed)		.000
	N	44	44
Financial performance	Pearson Correlation	.587**	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 financial risk assessment and financial performance of Centenary Bank, Mukono. This relationship is affirmed by ($r = .587^{**}$, $p < .05$). It should further be noted that the p-value is below the significance level of 0.05 which means that we accept the null hypothesis. This means that there is a significant positive relationship between financial risk assessment and financial performance of Centenary Bank, Mukono.

The findings relate with the literature by Bhattacharya (2011) who argues that risk analysis should be done in their correct contexts, for instance, credit risk should be analyzed in the context of cash flow projections and simulations. This will allow financial institutions like banks to implement the correct risk measures on risks and train well its staffs to handle the risks. Drzik (1995) also notes that larger banks in United States have improved and strengthened their risk management strategies that have positively affected their financial performance.

4.5 The relationship between financial monitoring and financial performance of Centenary Bank, Mukono

Table 7 summarizes respondents' responses on the relationship between financial monitoring and financial performance of Centenary Bank, Mukono by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

Table 7: The relationship between financial monitoring and financial performance of Centenary Bank, Mukono

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	F (%)	F (%)	F (%)	F (%)	F (%)
The bank employs advanced technology and tools to monitor market trends and fluctuations	13 29.5%	19 43.2%	8 18.2%	2 4.5%	2 4.5%
The bank actively monitors compliance with legal and regulatory requirements related to financial operations	20 45.5%	10 22.7%	7 15.9%	4 9.1%	3 6.8%
The bank conducts periodic internal audits to assess the effectiveness of financial monitoring processes	24 54.5%	10 22.7%	8 18.2%	2 4.5%	00
The bank consistently reviews and updates its financial monitoring procedures to align with emerging risks and industry best practices	23 52.3%	13 29.5%	3 6.8%	5 11.4%	00
The bank conducts regular and comprehensive reviews of financial statements to identify any anomalies or discrepancies	12 27.3%	15 34.1%	13 29.5%	1 2.3%	3 6.8%
The bank consistently monitors key financial indicators to ensure timely detection of potential risks	23 52.3%	18 40.9%	3 6.8%	00	00

Source: Primary data

Table 7 represents the descriptive statistics on the relationship between financial monitoring and financial performance of Centenary Bank, Mukono. According to study, 29.5% strongly agreed and 43.2% of the respondents agreed that the bank employs advanced technology and tools to

monitor market trends and fluctuations, 18.2% were not sure whereas a total of 9% of the respondents disagreed and strongly disagreed with the statement. The study also found out that 45.5% and 22.7% of the respondents strongly agreed and agreed respectively that the bank actively monitors compliance with legal and regulatory requirements related to financial operations, 20.7% were not sure whereas 15.9%, 9.1% and 6.8% of the respondents disagreed and strongly disagreed respectively with the statement put across.

The study further contended that 54.5% and 22.7% of the respondents strongly agreed and agreed respectively that the bank conducts periodic internal audits to assess the effectiveness of financial monitoring processes, 18.2% of the respondents were not sure whereas 4.5% disagreed with the statement put across. The study found out that 52.3% and 29.5% of the respondents strongly agreed and agreed respectively that the bank consistently reviews and updates its financial monitoring procedures to align with emerging risks and industry best practices, 6.8% of the respondents were not sure whereas 11.4% disagreed with the statement put across.

The findings illustrated that 27.3% strongly agreed, 34.1% of the respondents agreed that the bank conducts regular and comprehensive reviews of financial statements to identify any anomalies or discrepancies, 29.5% were not sure while 2.3% and 6.8% of the respondents disagreed and strongly disagreed respectively with the statement put across. Lastly, the study further contended with the fact that 52.3% strongly agreed and 40.9% of the respondents agreed that the bank consistently monitors key financial indicators to ensure timely detection of potential risks, whereas 6.8% of the respondents were not sure of the statement put across.

Therefore the major findings of the study illustrated that majorly, the bank employs advanced technology and tools to monitor market trends and fluctuations and also actively monitors compliance with legal and regulatory requirements related to financial operations which has helped the bank in improving on its financial performance in the long run which were represented by 92.4% and 76.1% of the respondents who agreed respectively. The findings of the study concerning the relationship between financial monitoring and financial performance of Centenary Bank, Mukono were further determined using Pearson's correlation that was conducted as shown below;

Table 8: Pearson’s correlation on financial monitoring and financial performance

Correlations

		Financial monitoring	Financial performance
Financial monitoring	Pearson Correlation	1	.645**
	Sig. (2-tailed)		.000
	N	44	44
Financial performance	Pearson Correlation	.645**	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 financial monitoring and financial performance of Centenary Bank, Mukono. This relationship is affirmed by ($r = .645^{**}$, $p < .05$). It should further be noted that the p-value is below the significance level of 0.05 which means that we accept the null hypothesis. This means that there is a significant positive relationship between financial monitoring and financial performance of Centenary Bank, Mukono.

The findings relate with the literature by Patersson and Isac (2014) who argued that credit risk monitoring is divided into three stages namely simple risk control, estimation default probability and linking economic capital and return. It is important that commercial banks set minimum rates of returns to be obtained from every portfolio. In an attempt to assess how banking regulation affected performance of commercial banks, Ben-Naceur and Omran (2009) also noted that bank capitalization and credit risk have positive and significant impact on banks’ net interest margin, cost efficiency and profitability.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The chapter presents discussions of results that were presented in chapter four. It also relates these results to similar studies which were carried out elsewhere as revealed by different scholars. This chapter also provides recommendations and conclusions basing on findings of the study and suggests areas for further research.

5.1 Summary of findings

The findings revealed that a substantial proportion of respondents strongly agreed or agreed that the bank had well-defined procedures and systems to identify potential financial risks (72.7%) and robust mechanisms to identify and mitigate operational risks (68.2%). Moreover, a significant percentage of respondents strongly agreed or agreed that the bank encourages employees to report potential risks (77.2%), effectively identifies potential credit risks associated with loan portfolios (81.8%), and demonstrates a strong commitment to identifying and managing liquidity risks (61.4%). Additionally, the majority of respondents agreed that the bank employs advanced technology and tools to identify financial market risks (93.2%). The study's statistical analysis using Pearson's correlation further confirmed a positive and significant relationship between financial risk identification and financial performance ($r = .633^{**}$, $p < .05$). In conclusion, the findings indicate that Centenary Bank's effective identification of financial risks contributes to its improved financial performance.

Furthermore, the findings revealed that a considerable proportion of respondents strongly agreed or agreed that the bank had well-defined procedures and methodologies for assessing financial risks (90.9%) and regularly reviewed and updated its risk assessment processes to adapt to changing market conditions (88.1%). Moreover, a significant percentage of respondents strongly agreed or agreed that the bank utilized advanced tools and models to assess and quantify financial risks (88.6%) and made a thorough assessment of key risks facing the bank, along with implementing strategies to mitigate these risks (88.6%). However, the study also highlighted areas for improvement, as a relatively smaller proportion of respondents strongly agreed or

agreed that there was timely financial risk assessment conducted by the risk management team before losses were caused to the bank (65.9%) and that risk assessments were always conducted by knowledgeable and competent individuals (82.7%). Nonetheless, the statistical analysis using Pearson's correlation confirmed a positive and significant relationship between financial risk assessment and financial performance ($r = .587^{**}$, $p < .05$), indicating that effective financial risk assessment is associated with improved financial performance for Centenary Bank.

Finally, the findings revealed that a substantial proportion of respondents strongly agreed or agreed that the bank employed advanced technology and tools to monitor market trends and fluctuations (72.7%) and actively monitored compliance with legal and regulatory requirements related to financial operations (68.2%). Moreover, a significant percentage of respondents strongly agreed or agreed that the bank conducted periodic internal audits to assess the effectiveness of financial monitoring processes (77.3%) and consistently reviewed and updated its financial monitoring procedures to align with emerging risks and industry best practices (81.8%). Additionally, the majority of respondents agreed that the bank conducted regular and comprehensive reviews of financial statements to identify any anomalies or discrepancies (61.4%) and consistently monitored key financial indicators to ensure timely detection of potential risks (93.2%). The statistical analysis using Pearson's correlation further confirmed a positive and significant relationship between financial monitoring and financial performance ($r = .645^{**}$, $p < .05$), indicating that effective financial monitoring is associated with improved financial performance for Centenary Bank.

5.2 Conclusions

The study aimed at exploring the relationship between financial risk management and financial performance of commercial banks in Uganda: a case of Centenary Bank, Mukono branch. In conclusion therefore, the comprehensive study on the relationship between financial risk identification, financial risk assessment, financial monitoring, and financial performance of Centenary Bank in Mukono indicates strong positive associations between these factors and the bank's overall financial performance. The findings demonstrate that the bank's well-defined procedures and systems for identifying potential financial risks, robust mechanisms for operational risk mitigation, and encouragement of employee reporting contribute significantly to improved financial performance. Additionally, the bank's effective utilization of advanced tools

and models for risk assessment and its commitment to regular review and updates of risk assessment processes positively impact financial performance. Moreover, the bank's use of advanced technology for monitoring market trends, regular internal audits, and comprehensive financial statement reviews have a positive correlation with enhanced financial performance. These findings emphasize the importance of proactive risk management strategies and financial monitoring practices for Centenary Bank's sustained success.

5.3 Recommendations

Basing on the study findings, the following recommendations were highlighted;

Strengthen risk identification and assessment processes: Centenary Bank should continue to invest in and improve its risk identification and assessment procedures. Regular reviews and updates of risk identification systems, methodologies, and tools will help the bank stay ahead of emerging risks and adapt to changing market conditions. Ensuring that risk assessments are conducted by knowledgeable and competent individuals will lead to more accurate risk evaluations.

Enhance employee engagement and reporting: The bank should foster a culture that encourages employees to actively report potential risks. Establishing clear channels and mechanisms for risk reporting will help ensure that potential risks are identified and addressed in a timely manner. Employee training and awareness programs can be implemented to create a risk-aware workforce.

Optimize risk mitigation strategies: Centenary Bank should focus on developing and implementing effective risk mitigation strategies, especially concerning credit risk and liquidity risk. By continuously monitoring key financial indicators and conducting thorough assessments of risks, the bank can proactively address potential issues and optimize its risk exposure.

Embrace technological advancements: The use of advanced technology and tools for risk monitoring and market analysis should be further emphasized. Investing in state-of-the-art risk management software and analytics platforms can provide valuable insights into market trends and fluctuations, enabling the bank to make informed decisions and enhance financial performance.

Enhance compliance and internal auditing: The bank should maintain a strong focus on compliance with legal and regulatory requirements related to financial operations. Regular internal audits should be conducted to assess the effectiveness of financial monitoring processes and identify areas for improvement. Ensuring compliance and effective internal control mechanisms will contribute to the bank's reputation and long-term success.

Foster a continuous improvement culture: To remain competitive and adaptive to changing financial landscapes, Centenary Bank should foster a culture of continuous improvement. Encouraging a learning environment and promoting innovation within the organization will enable the bank to identify and implement best practices in risk management and financial performance.

Prioritize long-term financial sustainability: While short-term financial goals are essential, the bank should prioritize long-term financial sustainability. A balanced approach between risk-taking and prudent risk management will help the bank maintain stability and resilience in the face of economic challenges.

5.4 Area for further research

The study makes several suggestions for further researcher on areas which emerged during the study and require further research. This study recommends that further research could be focused on conducting a comparative study that examines the financial risk management practices of Centenary Bank with other commercial banks in Uganda. This research could delve into the risk management frameworks, strategies, and tools employed by different banks and investigate how these practices influence their respective financial performances. Analyzing the variations and similarities between banks in terms of risk identification, assessment, mitigation, and monitoring can provide valuable insights into best practices for optimizing financial performance within the banking sector.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

FOR STAFF OF CENTENARY BANK, MUKONO BRANCH

Dear sir/madam

My name is Ainamazima Gloria; I am a student of BSAF at Uganda Christian University. I am conducting a study on “the relationship between financial risk management and financial performance of commercial banks in Uganda: a case of Centenary Bank, Mukono branch.” You have been specifically selected to participate in this study and the information collected shall be purely for academic purpose and treated with the highest level of confidentiality. The success of this study shall greatly dependent on your response. Your cooperation shall highly be appreciated.

Section A. Bio Data

Please tick the most appropriate answer

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) Administration b) Credit
- c) Operations d) Audit
- e) I.T

5. How long have you spent working with Centenary Bank, Mukono branch?

- a) Less than 1 year b) 1-5 years
- c) 6-10 years d) Above 10 years

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).

Section B: Financial Risk Management

Questions		Responses				
NO.	Financial Risk Identification	5	4	3	2	1
1	The bank has well-defined procedures and systems in place to identify potential financial risks					
2	The bank has robust mechanisms to identify and mitigate operational risks in its day-to-day operations					
3	The bank encourages employees to report potential risks and provides channels for their identification					
4	The bank effectively identifies potential credit risks associated with loan portfolios					
5	The bank demonstrates a strong commitment to identifying and managing liquidity risks					
6	The bank employs advanced technology and tools to identify financial market risks					
NO.	Financial risk assessment	5	4	3	2	1
1	The bank has well-defined procedures and methodologies for assessing financial risks					

2	The bank regularly reviews and updates its risk assessment processes to adapt to changing market conditions					
3	The bank utilizes advanced tools and models to assess and quantify financial risks					
4	The bank usually makes a thorough assessment of the key risks facing the bank and whether the bank has some strategies put in place to mitigate these risks					
5	There is timely financial risk assessment conducted by the risk management team before losses are caused to the bank					
6	The bank ensures that risk assessments are conducted by knowledgeable and competent individuals					
NO.	Financial monitoring	5	4	3	2	1
1	The bank employs advanced technology and tools to monitor market trends and fluctuations					
2	The bank actively monitors compliance with legal and regulatory requirements related to financial operations					
3	The bank conducts periodic internal audits to assess the effectiveness of financial monitoring processes					
4	The bank consistently reviews and updates its financial monitoring procedures to align with emerging risks and industry best practices					
5	The bank conducts regular and comprehensive reviews of financial statements to identify any anomalies or discrepancies					
6	The bank consistently monitors key financial indicators to ensure timely detection of potential risks					

Section C: Financial Performance of Centenary Bank, Mukono Branch

	Statements	Responses				
		5	4	3	2	1
NO.	Financial Performance					
1	Centenary Bank demonstrates strong financial stability and profitability					
2	Centenary Bank effectively manages its assets and liabilities to optimize financial performance					
3	Centenary Bank consistently generates positive returns for its shareholders					
4	Centenary Bank's financial performance reflects efficient cost management and expense control					
5	Centenary Bank's financial performance demonstrates consistent growth and expansion					
6	Centenary Bank maintains a healthy capital adequacy ratio, indicating financial strength					
7	Centenary Bank effectively manages credit risk and maintains a low level of non-performing loans					
8	Centenary Bank's financial performance compares favorably to its competitors in the industry					

Thank you very much for your cooperation

APPENDIX 2: INTERVIEW GUIDE

FOR TOP MANAGEMENT OF CENTENARY BANK, MUKONO

Dear respondent,

My name is Ainamazima Gloria; I am a student of BSAF at Uganda Christian University. I am conducting a study on “the relationship between financial risk management and financial performance of commercial banks in Uganda: a case of Centenary Bank, Mukono branch.” You have been specifically selected to participate in this study and the information collected shall be purely for academic purpose and treated with the highest level of confidentiality. The success of this study shall greatly dependent on your response. Your cooperation shall highly be appreciated.

Section A: Introductions

1. Tell me about yourself (*gender, age, level of education*)
2. What position do you hold in Centenary Bank, Mukono Branch?
3. How long have you worked with Centenary Bank, Mukono Branch?

Section B: Relationship between financial risk identification and financial performance of Centenary Bank, Mukono

4. How does Centenary Bank identify financial risks within its operations?
5. Can you provide examples of specific financial risks that Centenary Bank has identified and successfully mitigated?
6. How does the bank’s financial risk identification process contribute to the overall financial performance of Centenary Bank, Mukono?

Section C: Relationship between financial risk assessment and financial performance of Centenary Bank, Mukono

7. How does Centenary Bank identify and assess financial risks within its operations?
8. Can you provide examples of specific financial risks that Centenary Bank has identified and successfully mitigated?
9. How does the bank’s financial risk identification process contribute to the overall financial performance of Centenary Bank, Mukono?

Section D: Relationship between financial monitoring and financial performance of Centenary Bank, Mukono

10. How does Centenary Bank identify and assess financial risks within its operations?
11. Can you provide examples of specific financial risks that Centenary Bank has identified and successfully mitigated?
12. How does the bank's financial risk identification process contribute to the overall financial performance of Centenary Bank, Mukono?

Thank you for your cooperation



UGANDA CHRISTIAN UNIVERSITY

A Centre of Excellence in the Heart of Africa

School of Business

July 18th 2023

To whom it may concern

Name: AINAMAZIMA GLORIA

Reg. No. 5208331218

A bachelor's student who is seeking permission from your office to collect data for his/her dissertation titled

"FINANCIAL RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA: A CASE STUDY OF CENTENARY BANK MUKONO BRANCH"

We shall be grateful if you could render assistance to him/her in collecting the necessary data for his/her dissertation

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter
Research coordinator

