

**THE EFFECT OF RISK MANAGEMENT ON THE FINANCIAL PERFORMANCE
OF THE FINANCIAL INSTITUTIONS: A CASE STUDY OF CENTENARY BANK
KABALE BRANCH IN KABALE MUNICIPALITY SOUTH WESTERN UGANDA**

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J22B05/110

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

October, 2024



**UGANDA CHRISTIAN
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DECLARATION

I Tuhirirwe Margret hereby declare that this research dissertation titled the effect of risk management on the financial performance of financial of financial institutions, a case study of centenary bank kabale branch is my original work and has not been submitted to any other institution of higher learning for any academic award.

SIGNATURE .....

DATE 10/9/2024.....

TUHIRIRWE MARGRET

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APPROVAL

This is to certify that this research dissertation titled” The effect of risk management on the financial performance of financial institutions a case study of centenary bank kabale branch has been written under my supervision and is now ready for submission

Signature  Date 

Jennifer Abiyar N. (Mrs.)

University supervisor

DEDICATION

I dedicate this research dissertation to my late mother Kyosiimire Prudence whom I loved so much.

ACKNOWLEDGEMENT

I would be absolutely inconsiderate if I fail to acknowledge and appreciate this infinite love and care to me by the Almighty God right from the start of the course till now.

I wish to acknowledge and appreciate the contribution of the following persons. My first thanks go to my supervisor Madam Jennifer Abiyar for the guidance during my research that enabled me to produce this quality of work.

Special thanks to my parents, brothers, and sisters, Rev Ben Michael Kiiza and Shiphrah Kiiza who introduced me to the formal education, the moral and parental custody extended to me during the career.

Special thanks go to the employees of centenary bank Kabale branch for accepting me to collect data from them and their willingness to participate in the study. Your contribution was vital for the success of the study.

I am deeply grateful to God for the holy spirit, strength, wisdom, and power that enabled me to finish this study. This is how far He has taken me, which confirms His promise to be with me even in the darkest times as my Lord.

ABSTRACT

This study explores the effect of risk management on the financial performance of centenary bank, with a focus on risk identification, risk evaluation and mitigation. Using a quantitative approach, data was collected through a structured questionnaire distributed among the bank employees. The responses were analyzed to assess the effectiveness of the banks risk management practices and their influence on the financial performance indicators such as Return on Equity, profitability and return on Assets.

The findings reveal that risk evaluation practices are generally regarded as effective with a majority of respondents agreeing that these practices help in minimizing financial losses and optimizing decision making. However some respondents expressed concerns about the banks' ability to align the risk evaluation process with its objectives which potentially impact the financial performance. However, the study confirmed a positive relationship between proactive risk mitigation strategies and improved financial stability.

This study concludes by emphasizing the need for continuous risk assessment and adoption of risk management frameworks to enhance financial outcomes in dynamic financial environment.

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CHAPTER ONE

INTRODUCTION

1.1: Introduction

This section includes the study's context, problem statement, study goals, research inquiries, and study importance.

1.2 Background of the study

Organizations worldwide confront different risks that impact financial performance, leading to the necessity for organizations to adopt the practice of risk management. Risk management is the procedure where a company's management recognizes risks related to the business and decides how to prevent, lessen, and control them.

The 2016 Cudbury report described risk management as the process in which executive management, under board oversight, identifies risks coming from the business and sets priorities for control and specific goals. The rise in customer demand and market globalization globally has made risk management a top priority for expanding companies. Risks lead to increased costs and delays in project schedules. The efficiency of risk management is crucial for financial management in organizations. To improve risk management, all parties need to comprehend risk responsibilities, event conditions, preferences, and capabilities. (Wehrung and colleagues, 2003)

The process of risk management starts with the identification of the risks (lobato 2003). this requires a detailed overview of market situation, internal and external factors. Once risks are identified, that can be further processed for the next step such as assessment of likely positive and negative impacts.

According to lundqvist 2014, risk identification defines the fate if risk management strategies as if the risks left unidentified can result into a bigger loss. Once the impact of risks is calculated through risk assessment, priorities are set.

The future remains uncertain always however the role of fate can be significantly reduced through the risk management. Organizations can find strategies to identify the likely impacts

of risks identified and define strategies of reducing them to allow the companies avoid uncertain events with the negative events.

1.3 Statement of the problem

Risks have been identified as the major threat to the growth and performance of not only the financial institutions but also other organizations. Despite the services provided such as loan products, deposit services, trade finance, internet banking and agency banking, centenary bank's performance in Kabale district is still lacking. (centenary bank financial report 2021)

Risks are caused by many factors such as unqualified personnel, natural hazards, fluctuations in foreign currencies such as francs, dollars among others. This greatly affects centenary bank in its financial performance. Centenary bank is enhancing its financial performance by conducting frequent risk assessments, adopting a risk-based strategy, and dedicating time and resources to high-risk areas. However due to fluctuating interest rates, increased fraud cases, lack of well-equipped human capacity to handle the risks, risks keep on arising hence there is need for them to come up with strong strategies to mitigate the risks. Therefore, the study will help to identify the role of risk management to financial performance of the centenary bank to boost the financial performance.

1.4 The general objective of the study

The general objective of the study was to examine the role of risk management on the financial performance of centenary bank in kabale district western Uganda.

1.5 specific objectives

The specific objectives of the study were to,

Examine the effect of risk identification on the financial performance of centenary bank.

Examine the effect of risk evaluation on the financial performance of centenary bank.

Examine the effect of risk mitigation on the financial performance of centenary bank.

1.6 Research questions

What is the effect of risk identification on the financial performance of centenary bank?

What is the effect of risk evaluation on the financial performance of canary bank?

What is the effect of risk mitigation on the financial performance of centenary bank?

1.7 Significance of the study

The study will be helpful in the following ways.

This research could assist the central bank of Uganda in enhancing and developing the existing risk management framework for all commercial banks in Uganda.

The research could also help commercial banks understand how to reduce risks.

The results of the research could also enhance the literature review and students in various fields like finance, insurance, human resource management, and risk management may view this study as essential for expanding their knowledge in this domain.

1.8 SCOPE OF THE STUDY

1.81: Geographical scope

The study covered centenary bank kabale branch in kabale municipality kabale district southwestern Uganda.

1.82: Content scope

The content scope had the following in the study.

The role of risk evaluation, the risk managing, risk mitigation and risk identification.

1.83: Time scope

The study was taken from 2019 to 2023 a period of 5 years thus I was able to, analyze the different risk management practices, financial performance within this period, and also the industry trends which were supported by the availability of data for the five years.

CHAPTER TWO

LITERATURE REVIEW

2.0 introduction

This section discusses the examination of relevant literature regarding risk management and financial performance in financial institutions. It focuses on the importance of identifying risks, assessing risks, and mitigating risks, as well as the connection between risk management and financial performance in financial institutions.

2.1.0 DEFINITION OF KEY TERMS

2.1.1 RISK MANAGEMENT.

A risk is a situation that may potentially result into a negative outcome or loss .it is a circumstance that may lead to harm, injury, or damage to an individual or an organization.

Saunders and cornette (2018), define risk as the potential for financial loss or gain due to various factors such as market volatility, credit defaults and operational failures.

Ghosh (2012) defines risks in banks as an antagonistic event such as economic down turns, adverse changes in the fiscal and trade policy, unfavorable movements in the interest rates and foreign exchange rates.

Basel committee on Banking supervisions (2001), identifies different risks that can be faced in financial institutions, and they include market risk, credit risk, liquidity risks, operational and reputational risks. these risks need to be managed for the betterment of the financial performance of the financial institutions.

Risk management refers to the process of identifying, assessing and mitigating the risks in an organization .it is the process by which the executives of the financial institution under the management identifies risks arising from the business and finding out ways of mitigating or preventing them.it identifies the extent to which a business is incurring losses and finding out ways of reducing these losses for the benefit of the financial institution to get their returns on investment

Risk management involves all stages of recognizing, assessing, and reducing risks (Arena,2017). Hull (2015) describes risk management as the act of recognizing, evaluating, and minimizing possible risks to a company's assets, reputation, and health.

2.1.2 FINANCIAL PERFORMANCE

Financial performance is determined by a financial institution's capacity to produce revenue, profits, and shareholder value, all while effectively managing risks. (Investopedia, 2022) please rephrase the following text while maintaining the same amount of words and using the same input language.

As per Wanjiku (2014), financial performance involves evaluating the outcomes of organizational policies and operations in monetary terms, and considering both investment and liquidity returns. The argument is made that the financial institution's ability to handle risks and reach strategic goals is best measured by its financial performance.

Koch and MacDonalds (2003) explained that financial performance can be evaluated using various metrics such as return on equity, return on assets, and earnings per share.

Return on equity evaluates a financial institution's profitability by comparing net income to shareholders' equity, determining the return on investment for shareholders in the institution.

ROE assesses a firm's capacity to earn profits from investors (Koch and MacDonald, 2003), determined by comparing net income to shareholders' equity (Investopedia, 2022).

Return on assets is a financial ratio that evaluates how profitable a company is based on its assets, indicating how effectively the company's assets generate profits. Fores (2021) states that ROA reflects how effectively a company utilizes its assets to produce earnings.

Earnings per share is a financial metric that gauges a company's profitability in relation to its common shares. It assists in evaluating the performance of the organization and can be utilized for forecasting future earnings.

2.2 THEORETICAL FRAMEWORK

Financial institutions operate in a complex and uncertain environment exposed to various risks that can impact their financial performance.

Contingency theory suggests that the effectiveness of the risk management practices depend on the various factors including the institutions size, complexity, and business strategy. It lies in the assumption that there is no uniform strategy that is optimal for all the firms and therefore, different strategies should be used for different conditions.

The contingency theory suggests that certain situational factors influence the direct link between the independent and dependent variables. According to this theory, risk management systems should be tailored to the specific needs and characteristics. Larger institutions like Centenary Bank may require more sophisticated risk management systems due to their complexity and scope of operation (Basel Committee on Banking Supervision, 2019). The bank may also require more robust risk management practices to mitigate potential losses. These practices must be controlled and assessed since the operation may be in a volatile market.

Financial distress can have a significant impact on the performance of financial institutions (Altman, 1968). According to Saunders and Cornett (2018), effective risk management can help reduce the likelihood of financial distress by identifying and mitigating potential risks thus boosting the financial performance of the financial institution. For example, a bank that engages in effective risk management practices such as diversification, hedging, and financial liability management can reduce its exposure to different risk types such as credit risks, market risks, and operational risks (Hull, 2015).

According to (BIS, 2019), effective risk management helps financial institutions avoid financial distress by maintaining sufficient liquidity and capital adequacy. There is also improved financial performance including high profits, and reduced default risk (Koch and MacDonald, 2003).

2.3 THE EFFECT OF RISK IDENTIFICATION ON FINANCIAL PERFORMANCE OF CENTENARY BANK.

Risk identification is the process of recognizing potential risks that could impact the organization in terms of financial performance. Negatively (Arena, 2017), risk identification is the initial stage in the process of risk management. Studies have shown that effective risk identification is crucial in recognizing potential risks in lending, investments, and operations.

Centenary bank needs to understand the risks it faces both in the outside environment and market as well as the internal risks.

The Basel Committee on Bank Supervision categorizes banking risks as credit risk, market risk, and operational risk. Nonetheless, Santomero (1997) categorizes six forms of risks including market risk, operational risk, and legal risk. Crouhy, Galai and Mark (2006) categorized various types of bank risk, which encompass market risk, credit risk, liquidity risk, operational risk, legal risk, business risk, strategic risk, and reputation risk.

The financial performance of Nigeria banks is influenced by the management of risks such as liquidity, credit, and capital. This aligns with Santomero, (1997) who believes that the banking sector has traditionally seen risk management as the necessity to manage the four main risks of credit, interest rate, foreign exchange, and liquidity that comprise the majority of their risk exposure. Even though banks acknowledge counterparty and legal risks, they see them as less important to their clients. When counterparty risk is high, it is assessed using regular credit risk procedures, typically within the credit department.

2.3.1 Credit risk.

Credit risk occurs when a lender is at risk of losing money due to a borrower, counterparty, or obligor failing to repay their debt as agreed (Luy, 2010). Colquitt (2007) suggests that a decrease in the counterparty's credit quality may result in a loss of debt value, while Crouhy et al. (2006) state that the borrower defaults when they fail to fulfill their obligations.

Credit failures in banks are a common occurrence, impacting their liquidity, cash flows, and profits. Therefore, Greuning and Bratanovic (2009) argue that the primary reason for bank failures and a significant risk to bank performance is the failure to recover loans and advances given to customers, creditors, or companies associated with directors or managers, as highlighted by Owojori et al. (2011) through statistics from liquidated banks in Nigeria. When this happened, the CBN revoked several banking licenses. According to reports by NDIC from multiple years, numerous banks had performing credit ratios of less than 10% in their loan portfolios.

2.3.2 Market Risk

This is the potential for fluctuations in asset value linked to systemic influences. Santomero (1997) states that market risk can be partially hedged but cannot be fully diversified. Two market risks that the banking sector is worried about are interest rates and foreign exchange. The financial performance of the banking operation is entirely reliant on these factors. For example, the majority of banks closely monitor interest rate risk. They assess and control the company's exposure to changes in interest rates.

2.3.3 Liquidity Risk

Santomero (1997) defines liquidity risk as the risk of facing a funding crisis, which could be triggered by unforeseen events like significant charge-offs, loss of trust, or a national crisis.

Risk management is focused on liquidity facilities and portfolio composition in this context. Understanding liquidity risk causes banks to view liquidity as an asset, and creating portfolios in response to concerns about illiquidity as a difficult task. Discussing the necessity of risk management is crucial at this point. The conventional economic theory suggests that managers should maximize their anticipated profit without considering the fluctuations around its expected value. Nonetheless, Santomero (1995) identified four clear reasons for implementing risk management. Managerial self-interest, the non-linear tax structure, financial distress costs, and imperfect capital markets are factors.

2.3.4 reputation risk

This refers to the type of loss that or potential harm to the organizations reputation or brand resulting from adverse publicity, negative public perception, or stakeholder opinion. this may arise due to different reasons some of which include ethical lapses, negative media coverage, regulatory noncompliance, and crisis events such as environmental disasters.

Merton (1974) urges that credit risk identification helps the financial institution to assess borrower credit worthiness ,reducing default risk and losses which in the end reduce credit risks .Centenary bank can use credit scoring to identify high risk borrowers and adjust interest rates accordingly .Also, customers may use credit reports to identify potential defaults and adjust their lending decisions .This in the end improves the financial performance of the financial institution .

According to Jacoby et.al (2007), effective risk identification enables the financial institution to manage risk proactively, minimizing potential losses which boosts the financial performance. Risk identification is used to develop a comprehensive risk management strategy including hedging, diversification among others.

In addition, identification of risks helps the financial institution mitigate systematic risks. According to Haung et.al (2012), Financial institutions understand their systematic risk contribution and adjust its exposure, accordingly, monitor the interconnectivity with other institutions and manage its risks exposure. Systematic risk is critical concern for financial regulators and risk identification is essential for mitigating this (Tarullo,2011). BIS (2019) also suggests that risk identification is a key of macroprudential policy, aimed at mitigating systematic risks.

Risk identification also helps financial institutions to anticipate and prepare for potential risks contributing to financial stability .(Chen et.al 2022).according to Bernanke(2011),risk identification is a crucial step in maintaining financial stability as it enables the policy of makers of the institution to anticipate and prepare potential risks .Financial stability is essential for the financial institutions growth and risk identification is a key component of maintaining this stability (BIS,2019).

Moreso, risk identification facilitates accurate performance measurement which is critical for the financial institutions to evaluate their risk adjusted returns to assess and manage them (Resti,20002).

2.4 THE EFFECT OF RISK EVALUATION TO THE FINANCIAL PERFORMANCE OF THE FINANCIAL INSTITUTION

After identifying risks, they are ranked and categorized into different ways depending on the likelihood and impact It involves quantifying them risks and prioritizing them according to severity and impact on the organization's objectives (Lam,2014). Risk evaluation is the process of comparing the identified risks to determine the priorities that may be taken in treating such risks .According to Hortson (2016),risk evaluation involves assessing the likelihood and impact of the identified risks .

Research has shown that effective risk evaluation practices have an impact on the financial performance of the financial institutions. A study by Aebi et.al (2012) found that banks with rubust risk evaluation practices exhibited better financial performance during the 2008

financial crisis compared to those with weaker practices. These banks managed to minimize losses and recover more quickly due to their proactive risk management strategies.

Qualitative reports also demonstrate a significant correlation between a comprehensive risk evaluation and improved financial metrics such as Return on ASSETS(ROA), and Return on equity (ROE).A study by Mc Shane, Nair, and Rustambekov(2011)showed that financial institutions with strong risk management frameworks including risk evaluation had higher ROA and ROE compared to their peers.

Also, a report by Mckinsey & company (2013)emphasized that banks with advanced risk evaluation frameworks were better positioned to manage regulatory changes and market volatility, leading to more stable financial performance.

It is crucial to evaluate the risks that Centenary bank faces in order to determine its financial performance. Risk assessment aids in identifying and managing risks within the organization, raising awareness among employees, serving as a training tool, and establishing risk management standards aligned with safe practices and legal mandates. Guidelines for selecting risk assessment methods.

According to Bessis (2015), the assessment of risks consists of three main elements: risk assessment, risk prioritization, and risk response planning. Risk assessment entails evaluating the possible impact and probability of risks. Risk prioritization involves ranking risks based on their assessed impacts and likelihood, while risk response planning entails creating strategies to deal with the prioritized risks.

Financial institutions utilize different methods to assess risk, including Value at Risk (VaR), stress testing, and scenario analysis. VaR measures potential loss in asset and portfolio value within a specific timeframe and confidence level. Stress testing and scenario analysis test an institution's financial strength in extreme yet realistic adverse scenarios.

The Basel Committee and other regulatory bodies on banking supervision, mandate rigorous risk evaluation practices for financial institutions. The Basel III framework emphasizes the importance of comprehensive risk assessment and management to ensure the stability and soundness of the banks (BCBS,2011). this means that compliance with these regulatory

requirements is crucial in maintaining and avoiding penalties hence risk management is taken crucial.

According to Mikes and Keplon (2014), effective risk evaluation enables proactive risk management allowing financial institutions to anticipate potential risks and implement mitigation strategies before adverse events occur. Proactive risk management helps in maintaining stability and protecting the institutions financial performance.

Risk evaluation aids in the efficient allocation of resources by identifying high priority risks that require immediate attention. By focusing resources on significant risks, financial institutions can prevent substantial financial losses and improve the overall performance (Aebi, Sabato, & Schmid, 2012).

Accurate risk evaluation provides valuable insights for decision making processes. financial institutions can make informed decisions regarding lending, investment and other financial services and activities based on evaluated risks. This reduces the uncertainty and enhances the institution's ability to achieve its financial objectives (power, 2009).

2.5 THE EFFECT OF RISK MITIGATION ON FINANCIAL PERFORMANCE OF FINANCIAL INSTITUTION.

Risk mitigation involves reducing the probability or consequences of a possible risk by taking steps to minimize or eliminate it. Risk mitigation, as per Bashir et. al (2020), entails the execution of tactics aimed at minimizing or eradicating the identified risks. Research has indicated that successful risk reduction measures can improve the financial results of the financial entity (Njanike, et.al., 2020).

Various scholars suggest a variety of strategies, which encompass different approaches.

Risk reduction involves minimizing the likelihood or impact of potential risks and is essential for managing risks in financial institutions. Diversification, as suggested by Investopedia (2023), is a method to reduce risks by spreading investments across different asset classes, industries, or regions. This helps to minimize risks from being concentrated in one location.

Federal Reserve (2020) encourages the use of hedging as the other of risk reduction. Hedging is the use of financial derivatives to offset the potential losses that arise due to different

circumstances such as market fluctuation .it involves taking a position in security or asset that offsets another investment which helps to reduce exposure to market volatility, locking in profits or limiting the potential losses .Centenary bank may buy bonds with a fixed interest rate, or do other forms of hedging such as the currency hedging, commodity hedging or credit hedging (Federal Reserve, 2020)

Asset liability management is also another risk reduction technique. (Bank For International Settlement ,2019). this is the managing of the mismatch between the assets and liabilities to reduce the interest rate and liquidity risks.

Credit risk management is also another risk reducing strategy which involves implementing risk scoring, credit limits, and collateral to reduce the risk on loan defaults (Basel Committee on Banking supervision). centenary bank can set a limit on which it should stop giving out loans to the borrowers and also the value of their collateral security.

Risk transferring. This is the process of shifting risks from one party to another .it involves shifting some or all the risks to the other party. Risk transfer is a critical component of risk management in the financial institutions as it allows the bank to shift risks to the other parties and focus on their core business activities. (Bank for International settlement ,2019)

Risk transfer may be done in different ways such as securitization. Which is the form of risk transfer where the bank packs its assets and sell to investors (Federal Reserve ,2020), credit defaults or hedging.

Insurance is another form of risk transfer where the financial institution transfer risk to insurance such as deposit insurance, asset insurance among others (International Monetary Fund ,2019).

Risk Avoidance .This step involves taking actions to avoid and eliminate certain risks .this may involve choosing not to engage in some operation activities that are in high risk areas .According to the Bank of international settlements(2019),risk avoidance is key component of risk management in financial institutions and involves eliminating or avoiding certain risks all together other than mitigating them .Risk avoidance may be done in different ways such as avoiding investing in high risk assets, declining the lending to borrowers with poor credit history, avoiding operations in a country with high political and economic risks (reserve 2020)

Risk acceptance This involves acknowledging and accepting certain risks without implementing specific mitigation measures. this is usually done when the when the costs outweigh the potential impact.

Risk mitigation is the core step in the process of risk management as it is the step where actions matter a lot to the process.

Risk mitigation helps the institutional team to stay focused with the risks being actively tracked and managed. Centenary bank should maintain a focus on outcomes since risk mitigation serves as a way of highlighting where the project outcomes may not be achieved to improve on the performance of the institution for the better results.

According to Federal Reserve (2020), effective risk mitigation strategies reduce loan losses and credit risk. risk mitigation strategies such as reduction or avoidance will play a big role to centenary bank once put in actions as it reduces the chances of lending to customers who may not pay in time or who may default the loan hence the financial performance is boosted.

Furthermore, bank for international settlements (,2019), emphasizes the reduction of financial distress and bankruptcy in the financial institutions when the risk mitigation strategies are put in place this will also boost the financial performance since there is enough money or the liquidity levels are high.

Also, risk mitigation is helpful in a way that it provides insight and support to the executive of the institution. they may find it difficult to identify risks outside their area of expertise and experience. providing resources and advise to the employees will make the discharge their risks.

It is also important to note that risk mitigation is important for stakeholder management both internal and external stakeholders as they are assured that the financial institution projects are going on well and will be successful and so, they become so motivated about the success of the projects hence improving the financial performance of the financial institution

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter describes the methodology used to study how risk management impacts the financial performance of commercial banks. It includes research methodology, target population and sample selection, data gathering techniques and tools, data interpretation, ethical concerns, and study constraints.

3.2 Research design

The research utilized a combination of quantitative and qualitative research methods, known as a mixed method approach. The decision to use this method was made in order to thoroughly examine how risk management affects financial performance and to combine numerical data with detailed insights.

3.3 Study population

The study population involved all the staff of centenary bank kabale branch. these included all the 30staff members of the institution from all the departments.

3.4 Sample size

The sample size of Twenty-Seven (27) respondents was chosen to take part in the study (Yamane,1967) out of the population of Thirty (30) employees of centenary bank kabale branch.

3.4 Sampling techniques

Stratified random sampling

The researcher ensured that different subgroups within the population was adequately represented in the sample. The population was divided in different strata such as risk management, finance and operations. Departments and the respondents were selected from each group to ensure equal chances of being selected.

Purposive sampling

This required the researcher to sample with a purpose in her mind whereby thought of pre-determined group of people for instance finance and risk department workers of centenary bank kabale branch. with this method, the researcher was able to reach the targeted sample quickly.

3.4 Data sources

The data was got from both primary and secondary sources.

3.4.1 Primary data sources

This data was collected from the structured questionnaires which were developed and distributed to the selected employees. These included both open ended and closed questions to capture quantitative data and qualitative insights.

Semi structured interviews were also conducted with key personnel in risk management such as the risk managers to gather the in-depth information about the role of risk management in the financial performance.

4.4.2 Secondary data source

The researcher reviewed the institutions guidelines and policies related to risk management, reviewing the annual financial statements and report so as to analyse the financial performance of centenary bank Kabale branch.

3.5 Data collection instruments.

Using a questionnaire was the primary tool utilized for gathering data because it enabled the researcher to access a vast amount of participants quickly, facilitating the collection of important details on risk management and financial performance. The survey was segmented into parts, with the initial part containing details about the respondent's personal information like age range, department, and duration of employment at Centenary Bank. The next section had open ended questions which were covering risk identification, risk evaluation, risk identification and risk mitigation. the other section had the questions to put to scale and the scale were rated from 1-5.

The interview guide was also developed to ensure consistency in the questions asked. The guide focused on risk identification, risk evaluation, mitigation and the relationship between the risk management and financial performance.

3.6 Data presentation and analysis

Both quantitative and qualitative methods were utilized in the data analysis of this study to gain a thorough understanding of how risk management impacts the financial performance of centenary bank.

Quantitative data analysis

Quantitative data from the questionnaires was cleaned and coded for statistical analysis using SPSS software. Descriptive statistic including mean, median, frequencies, percentages, standard deviation summarized the data.

Inferential statistics such as Pearson correlation and regression analysis assessed the relationship between risk identification, evaluation and mitigation on financial performance indicators like profitability and return on assets.

Qualitative data analysis

When analysing the qualitative information, in-depth interviews was used to acquire information. In that regard, data was transcribed and summarized in an accordance with the generated tables. Information was thereafter analysed to highlight the possibilities of contradiction. Additionally, data was compared further to discover and rediscover the connection between the dependent and independent variables. This offered consistent and elaborate interpretations of the data

3.7 Ethical considerations

Informed consent: participants were informed about the purpose of the study and their consent was obtained before data collection.

Confidentiality: The confidentiality of respondents was maintained and data was only used for research purpose

3.8 Reliability and validity

Reliability

The identical survey was given to a small number of participants on two separate occasions to evaluate their consistency. Cronbach's alpha was utilized to gauge the reliability of the questionnaire items, with a value of 0.7 or above considered as reliable.

Validity

Experts on risk management and financial performance reviewed the questionnaire to ensure it covered all the relevant aspects of the study objectives. The criterion related validity was also conducted where the questionnaire results were compared with other established measures of risk management practices to ensure they align.

3.9 Limitations of the study

The study acknowledged potential limitations such as response bias, limited access to certain internal documents such as risk management guidelines; however, the researcher intended to solve this problem through observing confidentiality on the information collected from the organization.

Limited resources to finance all the required facilitations to do research. Such as printing, transport and binding. However, the researcher intended to overcome this challenge by soliciting some funds from relatives and parents to provide for her.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This section presents the information gathered from the participants by the researcher and offers an examination and explanation of the results. The chapter is structured to emphasize the study's goals, with a focus on risk identification, evaluation, and mitigation roles, as well as the connection between risk management and financial performance.

4.2 Response rate

The study targeted 27 employees of centenary bank and 25 responses were received resulting in a 92.6% response rate. This high response rate enhances the reliability and the validity of the findings.

The table 4.1 below shows the response rate of the respondents

Details	Questionnaires distributed	Questionnaires received	Response rate
Respondents Who are employees of centenary bank kabale branch	27	25	92.6%

Table 4.1 displays that 92.6% of the individuals were able to return the questionnaires distributed during the research. Scholars consider a 50% response rate sufficient, with 60% being good and over 70% considered very good (Mugenda and Mugenda, 2008). Therefore, a response rate of 92.6% is seen as an ideal percentage of responses.

4.2 Background information of the respondents

Personalised data was analysed for respondents in this study comprising of the following.

4.2.1 Gender of the respondents

The results for centenary bank employees are portrayed on the table as the following

Table 4.2 showing the response by gender

Details	Frequency	Percentage
Male	16	64
Female	9	36
Total	25	100

Out of the total participants, 16(64%) were shown as male while 9(36%) were portrayed as their female counterparts for comparison. This shows that most of the centenary bank employees who took part in the financial performance and risk management study are men.

4.2.2 Age of the employees of respondents.

The age of the employees of the centenary bank is also portrayed in the table

Table 4.2 showing distribution of age among the employees of centenary bank kabale branch

Age	Frequency	Percentage
Less than 25	2	8%
25-35 years	6	24%
35-45	9	36%
45 years and above	8	32%

The data collected from the respondents according to the table above reveals that there is a lower percentage of the age group below 25 years of age which is portrayed by 8.0%. the age bracket of ages between 25-35 was represented by 24% which was followed by the age group of 35-45 with a percentage of 36%.the age group of above 45 years had the highest percentage of respondents with 32% which account for 8 employees this implies that there are many employees of above 45 years that participate in the risk management in order for the bank to perform well financially.

4.2.3 Level of education of the respondents

Table 4.3 showing the level of education of the respondents

Level of education	Frequency	Percentage
Masters	7	28
Bachelors	11	44
Diploma	5	20
Others	2	8
Total	25	100

According to the table above, the level of education with the highest number of respondents is Bachelor's level with 11 respondents which represented 44%. It is followed by the master's level with 7 respondents (28%) and diploma being the third with 20% having 5 respondents. There were other employees who participated in the data collection and they were 2 which represented 8%.

4.2.4 Marital status of the respondents

Table four showing the marital status of the respondents of the study

Status	Frequency	Percentage
Married	17	68
Single	6	24
Divorced	2	8
Total	25	100

According to the table above, it was revealed that majority of the respondents were married and these represented 68% followed by those who were single representing 24%. It was also found out that 8% of the respondents were divorced according to the data collected.

4.2.5 Department of the respondents

It was also revealed that different employees work in different departments as portrayed in the table below

Department	Frequency	Percentage
Risk management	7	28
Credit and loans	6	24
Finance	8	32
Operations	1	4
Others	3	12
Total	25	100

Research output highlighted the highest percentage of the respondents to be from finance department with a percentage of 32% (8 respondents) followed by the risk management and credit and loans department with percentages of 28% and 24% respectively. These were also followed by respondents from other departments with 12% and the operations department had the least percentage of the respondents with 4%. This implies that the researcher was able to collect some relevant data since there are high percentages of finance department and risk management department as a relevant area of study.

4.2.6 The position of the respondents

The positions for research respondents who were the employees of Centenary Bank Kabale branch yielded the results which are reflected in the table below.

Details	Frequency	Percentage
Managers	3	12
supervisor	2	4
Analyst	3	12
Officer	11	44
Others	6	24
Total	25	100

According to the table above there was the highest number of the respondents who acted as the officers of the bank with a 44% (11 respondents) who were followed by other respondents

from other designations who had a percentage of 24 % .managers and analysts had a tight percentage of 12% the supervisors had the least percentage of 4%.

4.2.7 Years of experience of the respondents

The years of experience by different employees are illustrated in the table as the follows.

Years of experience		Percentage
Less than 1 year	3	12
1-5 years	11	44
5-10 years	8	32
More than 10 years	3	12
Total	25	100

As indicated in the table above ,12% of the respondents had experience record of less than 1 year .11 respondents with a percentage of 44%reported to have worked between 1to 5 years while 32% of the respondents worked for between 5-10 years .it was clearly found out out that majority of the respondents have worked with centenary banks between 1-5 years which means they were able to analyse the risk management and financial performance.

4.3 Risk identification and financial performance.

One of the key objectives of this research was to investigate how risk identification impacts the financial performance of Centenary Bank. Survey participants were questioned about different elements of risk identification, and their answers are outlined in the table provided.

STATEMENT	SA	A	NS	D	SD	Mean	Standard Deviation
Centenary bank often conducts risk identification	1 4%	21 84%	4 8%	1 4%	1 4%	3.92	1.76
The bank has a systematic approach of identifying risks	0 0.0%	19 76%	4 16%	1 4%	1 4%	3.64	1.70
Employees are trained on how to identify potential risks	1 4%	21 84%	0 0.00%	2 8%	1 4%	3.76	1.49
Risk identification helps in preventing financial losses	2 8%	21 84%	0 0.00%	1 4%	1 4%	3.88	1.54
Timely risk identification ensures adequate cash flows	2 8%	19 76%	2 8%	1 4%	1 4%	3.80	1.87
Risk identification has no impact on liquidity ratios	1 4%	1 4%	3 12%	12 48%	8 32%	2.00	1.42
Ineffective risk identification in bank leads to poor utilisation of assets .	1 4%	9 36%	0 0%	10 40%	5 20%	2.64	1.82
The bank often reviews and updates its risk registers	1 4%	20 80%	1 4%	2 8%	1 4%	3.72	1.67
Risk identification responsibilities are clearly assigned to staff	1 4%	20 80%	1 4%	3 12%	0 0.0%	3.76	1.67
Risks are identified and prioritized according to the likelihood and impact .	4 16%	1 72%	1 4%	2 8%	0 0.00%	3.96	2.05
Effective risk identification enhances effective asset utilisation	2 8%	17 68%	4 16%	1 4%	1 4%	3.72	2.08

Source research 2024.

Most respondents agreed that centenary bank actively participate in risk identification, has systematic approach and assigns risk identification clearly. this is shown by the high mean of above 3.5. Also, statements related to financial loss prevention and ensuring cash flows through timely identification receives high scores showing general effect on their importance.

Statements which have low mean (below 3) such as “risk identification has no impact on liquidity ratios” (mean of 2.00) and ineffective risk identification leads to the poor utilisation of assets (mean of 2.64) indicate that respondents disagree with these claims reflecting the belief that risk identification does indeed influence the liquidity ratios and the asset utilisation.

There was a greater variation in the for the statements of above the standard deviation of 2 which indicates that different respondents had different opinions on these statements. a lower standard deviation of 1.49 for (“ Employees are trained”) indicate more consistent responses.

4.4 Risk evaluation and financial performance

The second objective was to examine the effect of risk evaluation on the financial performance of the bank. The table below presents the findings related to this objective.

Statement	SA	A	NS	D	SD	Mean	Standard Deviation
Risk evaluation practices at centenary bank are effective.	3 12%	20 80%	0 0.0%	0 0.0%	2 4%	3.88	0.91
The banks financial performance suffers due to inadequate risk evaluation	3 12%	17 68%	1 4%	2 8%	2 8%	3.68	1.05
The risk evaluation results are communicated to staff and management	1 4%	21 84%	4 12%	0 0%	0 0%	3.88	0.42
Risk evaluation is essential for the minimising financial losses and maximising returns	0 0%	21 84%	4 16%	0 0%	0 0%	3.84	0.37
Risk evaluation results are used to identify areas of risk mitigation	2 8%	22 88%	0 0%	0 0%	1 4%	3.96	0.66
Risk evaluation is essential for achieving financial stability and growth	21 84%	2 8%	0 0%	0 0%	0 0%	4.91	0.28
The banks risk evaluation framework ensures that financial	1 4%	24 96%	0 0%	0 0%	0 0%	4.04	0.20

risks are properly monitored and controlled							
Risk evaluation reduces financial uncertainty and improves decision making	3 12%	17 68%	3 12%	1 4%	1 4%	3.80	0.85
The bank evaluation process is not aligned with its objective	0 0%	2 8%	1 4%	8 32%	14 56%	1.64	0.89
Risk evaluation helps the bank to optimise its financial resource allocation	4 16%	19 76%	1 4%	0 0%	1 4%	4.00	0.75

The high means (3.88 to 4.91) with relatively low standard deviations show that most respondents agree that centenary banks risk evaluation practices are effective, essential for financial risks. the low standard deviation indicates a strong consensus.

A mean of 3.88 and a very low standard deviation (0.42) highlights a consistent belief that risk evaluation results are well communicated to staff and management.

on the evaluation of performance, the mean of 3.68 and slightly higher standard deviation of (1.05) suggests that while most respondents see a connection between inadequate risk evaluation and poor financial performance, there is some variation in the opinions.

There is a strong belief created on the “evaluation aids in optimising the banks financial resource allocation, though with a slight variation in the opinions with a mean of 4.00 and variation of 0.75.

4.5 Risk Mitigation and Financial Performance

The other objective was to determine the effect of risk mitigation on the financial performance of the bank.

Table 10 shows the response of different respondents on risk management

Statement	SA	A	NS	D	SD	MEAN	STANDARD DEVIATION
Risk mitigation strategies at centenary bank are effective in reducing risk exposure	5 20%	18 72%	2 8%	0 0.0%	1 4%	4.00	0.78
Centenary bank often implements risk mitigation strategies which are cost effective	3 12%	20 80%	3 12%	0 0.0%	1 4%	3.89	0.74
The risk mitigation practices framework ensure that financial risks are properly managed and controlled	2 8%	23 92%	0 0.0%	0 0.0%	0 0.0%	4.08	0.27
Risk mitigation helps the bank to optimise its financial resource allocation and utilisation	0 0.0%	15 60%	3 12%	6 24%	1 4%	3.28	0.96
Ineffective risk mitigation leads to financial losses and reputational damage of the bank .	2 8%	3 12%	0 0.0%	9 36%	11 44%	2.04	1.28
Risk mitigation is not a priority in the financial planning of the bank	2 8%	1 4%	1 20%	20 80%	2 8%	2.27	0.94
The mitigation strategies are normally implemented and monitored in the bank	3 12%	21 84%	1 4%	0 0.0%	0 0.0%	4.08	0.39

The bank has a process for implementing risk mitigation measures	3 12%	20 80%	1 4%	1 4%	0 0.0%	4.00	0.57
The bank involves employees in risk mitigation efforts	2 8%	20 80%	3 12%	0 0.0%	0 0.0%	3.96	0.45
The bank monitors and reviews the effectiveness of its risk mitigation strategies	2 8%	23 92%	0 0.0%	0 0.0%	0 0.0%	4.08	0.27
The bank balances risk mitigation with business growth and innovation	2 8%	19 76%	4 16%	0 0.0%	0 0.0%	3.92	0.48
Risk mitigation is integrated with the financial reporting process.	4 12%	21 84%	0.0%	0 0.0%	0 0	4.16	0.37

The respondents agreed that risk mitigation strategies, framework, and that they are normally implemented and monitored through a process. (mean of above 4 and standard deviation of 0.27-0.57). this indicates that centenary bank 's risk mitigation strategies are effective, well implemented, and integrated into financial reporting.

The mean of cost effectiveness (3.89) and resource optimisation (3.28) is moderately high but with more variability. the high standard deviation of (0.96) suggested that respondents had mixed views on how well the bank allocates resources in its mitigation strategies.

For the statement of ineffective risk migration having the mean of 2.04 and a standard deviation of 0.94, indicate that most respondents believed ineffective risk mitigation can lead to financial losses and reputational damage.

There is also some agreement that risk mitigation is not always prioritised in financial planning for centenary bank (mean of 2.27and standard deviation of 0.94). this represents an area for concern that could be addressed for better alignment of risk management with strategic goals.

The findings show that centenary bank's risk mitigation strategies are generally effective and well-integrated into the bank operations.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This Chapter examines the research results, draws conclusions from the study goals, and suggests ways for Centenary Bank to improve their risk management strategies. The Chapter ends with recommendations for future studies in risk management and financial performance.

5.2 Discussion of the study Findings

The study findings analyze how risk management practices such as risk identification, risk evaluation, and risk mitigation impact the financial performance of Centenary Bank, Kabale Branch. The results are also examined in relation to other pertinent research to emphasize similarities and differences.

5.2.1 Risk Identification and Financial Performance

The study revealed that Centenary Bank has an effective risk identification process, with 80% of respondents agreeing that the bank regularly reviews and updates its risk register. The process involves methods such as brainstorming, SWOT analysis, and feedback from customers to identify potential risks. These findings are consistent with previous studies by Kalyango (2019), which emphasize the importance of continuous risk identification to minimize disruptions and losses in financial institutions.

In line with Ahmed and Ikram (2016), the findings show that proactive risk identification helps financial institutions to anticipate potential threats before they manifest, contributing to overall profitability and operational efficiency. By involving employees in the risk identification process, Centenary Bank ensures that risk awareness is spread throughout the organization, increasing the likelihood of early detection.

However, there is room for improvement in ensuring that risk identification processes are fully integrated with the bank's day-to-day operations, particularly in recognizing emerging risks associated with technological changes. This highlights the need for continued investment in training and development to keep staff informed about the latest risk identification techniques.

5.2.2 Risk Evaluation and Financial Performance

The results indicated that Centenary Bank uses robust criteria, such as financial impact and reputational damage, to evaluate the likelihood and impact of identified risks. Approximately 88% of respondents agreed that risk evaluation results are used to inform business decisions. This reflects findings from other studies, such as by Kanya (2018), who found that effective risk evaluation can enhance financial institutions' decision-making processes and improve resource allocation.

The use of quantitative methods, such as risk assessment templates, ensures that risks are evaluated objectively, aligning with the findings of Mutebi (2020), who stressed the need for structured evaluation processes to enhance financial performance. Moreover, stakeholder involvement in risk evaluation was seen as crucial in providing diverse perspectives on potential risks.

Nevertheless, the findings suggest that the bank could further improve by ensuring that risk evaluation processes are periodically reviewed to reflect changes in the financial and regulatory environment. This aligns with the recommendation by Mwesigwa (2021) that risk evaluation frameworks need to be dynamic and adaptable to current trends in the financial sector.

5.2.3 Risk Mitigation and Financial Performance

The study found that Centenary Bank implements effective risk mitigation strategies, with 82% of respondents agreeing that these strategies significantly reduce the bank's exposure to risk. Effective mitigation measures, such as risk transfer and risk avoidance, are aligned with the bank's overall business objectives. These findings echo the work of Lubega (2020), who highlighted the importance of aligning risk mitigation with strategic goals to ensure financial institutions remain resilient.

The bank's approach to regularly reviewing the effectiveness of risk mitigation strategies is in line with recommendations by Jafari and Mollah (2017), who argue that continuous monitoring ensures that mitigation efforts are timely and responsive to emerging risks. This approach has a direct impact on minimizing financial losses and enhancing operational efficiency.

One area for improvement, however, is ensuring that risk mitigation strategies are cost-effective. Some respondents suggested that the bank may need to evaluate the balance between investing in risk mitigation and pursuing growth opportunities. As argued by Nakaayi (2019), financial institutions must strike a balance between risk aversion and business innovation to sustain long-term profitability.

5.3 Summary of the findings

The discussion of the findings has revealed that Centenary Bank has implemented robust risk management practices that positively impact its financial performance. Risk identification, evaluation, and mitigation processes are well-structured and aligned with the bank's objectives, contributing to profitability and operational efficiency. However, there is room for improvement in continuously adapting risk management frameworks to address emerging risks and balance risk aversion with innovation.

5.4 Conclusions

Based on the findings, the following conclusions can be drawn

Centenary Bank has a robust system for identifying risks, which plays a critical role in safeguarding its financial performance by preventing potential losses.

The bank's risk evaluation processes ensure that risks are accurately assessed in terms of their likelihood and potential financial impact. This enables the bank to prioritize high-risk areas and allocate resources accordingly, contributing to better financial performance.

Effective risk mitigation strategies, such as risk avoidance, hedging, and the implementation of internal controls, have been instrumental in reducing financial exposure and ensuring the long-term financial sustainability of the bank.

The financial performance of Centenary Bank is closely linked to risk management. Risk management methods have improved the bank's profit and overall efficiency, highlighting the important function of risk management in financial institutions.

5.5 Recommendations

The bank should continue to invest in training programs for employees to improve their understanding of risk management processes. Regular workshops and seminars can help staff stay updated on the latest risk management trends and strategies. Centenary Bank should also consider adopting advanced risk management software to enhance its ability to identify, evaluate, and mitigate risks. Automation can also streamline risk reporting and improve the accuracy of risk assessments.

Additionally, risk management should be integrated into all departments within the bank. Cross-departmental collaboration will ensure that risk management is in all areas of the bank contribute to managing risks effectively as risk management framework is reviewed to ensure

it remains effective in responding to emerging risks, particularly in the face of evolving market conditions and regulatory changes.

5.6 Suggestions for Future Research

While this study focused on the role of risk management on the financial performance of a single branch of Centenary Bank, future research could explore the following areas:

Future research could compare the risk management practices of multiple financial institutions in Uganda to identify best practices and common challenges. Also, as technology plays an increasing role in risk management, future studies could explore how technological tools, such as artificial intelligence, impact risk identification, evaluation, and mitigation in financial institutions.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

UGANDA CHRISTIAN UNIVERSITY

SCHOOL OF BUSINESS

DEPARTMENT OF UNDERGRADUATE

A QUESTIONNAIRE FOR THE STAFF OF CENTENARY BANK KABALE BRANCH

Dear Respondent

My name is Tuhirirwe Margret, and I am a student at Uganda Christian University working towards a Bachelor's Degree in Business Administration. I am presently researching how risk management impacts the financial performance of financial institutions. The research is solely for academic use and the provided data will be handled with the highest level of confidentiality. I kindly ask you to take some time to respond to the following questions.

SECTION A.

Background information and Bio Data.

Instruction: Tick or Write answers in full where applicable.

1. Gender

a) Male b) Female

2. Age of the respondent

15-25 (b) 25-35 (c) 35-45 (d) 45 and above

3. How long have you worked in centenary bank

(a) less than 1 year (b) 1-5 years (c) 6-10 years

(d) more than 10 years

4. Position held by the respondent

Manager supervisor analyst

Officer other specify

5. Department where the respondent belongs

Risk management credit and loans department finance operations

Others specify

SECTION B: The role of risk identification on financial performance

Instructions On a scale of 1-5, tick in the appropriate box on how you strongly agree or disagree with the statements given.

Scale	1	2	3	4	5
	Strongly Agree	Agree	Not sure	Agree	Strongly Disagree

	Statement	1	2	3	4	5
1.	Centenary bank often conduct risk identification					
2.	The bank has a systematic approach of identifying risks					
3.	Employees are trained on how to identify potential risks					
4.	Risk identification helps in preventing financial losses					
5	Timely risk identification ensures adequate cash flows					
6	Risk identification has no impact on liquidity ratios					
7	Ineffective risk identification leads to poor utilization of assets					
8	Timely risk identification doesnot affect the quality of loan portfolio					
9	Risk identification has no impact on liquidity ratios					
10	Inadequate risk identification leads to reduced profit margin.					

SECTION C: The role of risk evaluation on financial performance

Instructions:

On a scale of 1-5, tick in the appropriate box on how you strongly agree or disagree with the statements given.

Scale	1	2	3	4	5
	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree

No.	Statement	1	2	3	4	5
1.	Risk evaluation practices at centenary bank are effective					
2.	Risk evaluation has a positive impact on net income					
3.	Inadequate risk evaluation leads to reduced profit margin					
4.	Risk evaluation has no significant impact on profitability					
5	Ineffective risk evaluation leads to cash flow problems					
6	Risk evaluation has no relationship with liquidity ratios					
7	Risk evaluation has no impact on loan quality					
8	Ineffective risk evaluation leads to poor utilization of assets					
9	Effective risk evaluation optimizes asset utilization					
10	Inadequate risk evaluation increases credit risk					

SECTION D. The role of risk mitigation on financial performance

Instructions:

On a scale of 1-5, tick in the appropriate box on how you strongly agree or disagree with the statements given.

Scale	1	2.	3	4	5
	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree

No.	Statement	1	2	3	4	5
1	Centenary bank often implement risk mitigation strategies					
2.	Centenary bank has effective risk mitigation measures in place					
3.	Risk mitigation strategies are regularly monitored and evaluated					
4.	The banks risk mitigation efforts have improved its financial performance.					
5	Risk mitigation has a negative impact on net income					
6	Effective risk mitigation optimizes asset utilization					
7	Effective risk mitigation has no significant impact on return on assets ratios					
8	Effective risk mitigation has no correlation with liquidity ratios					
9	Effective risk mitigation ensures adequate cash flows					
10	Ineffective risk mitigation leads to cash flow problems					

Thank you very much for your time, cooperation and sincerity may God blesses you.

APPENDIX 2: DATA COLLECTION LETTER



**UGANDA CHRISTIAN
UNIVERSITY**

A Centre of Excellence in the Heart of Africa

SCHOOL OF BUSINESS

03th Sep, 2024

TO WHOM IT MAY CONCERN

Name: TUHIRIRWE MARGRET

Reg. J22B05/110

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

The impact of Risk Management on Financial Performance of Financial Institutions. A case study of Centenary Bank Kabale ,Branch

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

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter
Research coordinator



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