

**CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE AT EQUITY
BANK UGANDA**

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

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**UGANDA CHRISTIAN
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DECLARATION

I certify that this research proposal is wholly original, Nakasango Grace. No portion of it has been submitted to any university or institution for the award of a degree or other qualification, nor has it been duplicated or taken from any other source.

Signed: 

Date: 18/03/2026

APPROVAL

This is to confirm that I oversaw the writing of the research proposal called "Credit risk management and financial performance at equity bank Uganda." I have looked over it and given the go-ahead for it to be sent to the faculty of business at Uganda Christian University as part of the requirements for getting a Bachelor of Business Administration (BBA) degree. The proposal shows a deep understanding of the main ideas behind credit risk management and how they affect financial performance. I am sure that this research will add a lot to what we already know about the subject.

Signed by: 

Date: KASOZI Geoffrey

Supervisor's Name: 18th March, 2026

DEDICATION

The study is dedicated to my family members, Mr. And Mrs. Kasadha, and my grandmother, Ms. Nakasango Tappy, who have constantly encouraged and supported me throughout my education. I also dedicate this project to my instructors and tutors, who have assisted me through the academic journey, and to all students and researchers who seek to contribute positively to the global society by disseminating valuable information.

Their contributions are priceless and have inspired me to work hard towards achieving excellence and pursuing my objectives. This paper seeks to reflect the importance of those individuals who have contributed to my success in life and to motivate other learners to appreciate the value of teamwork and community in accomplishing set goals.

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Firstly, I would like to express my sincere gratitude to God Almighty for giving me the gift of life, wisdom, and strength to complete this research successfully. Secondly, I would like to extend my heartfelt thanks to my boss for their support, guidance, and help during the research period.

I am also thankful to my teachers for giving me the knowledge and skills I needed to do this research. I would like to thank Equity bank Uganda, that gave me the information we needed for this study.

Lastly, I want to thank my family, friends, and classmates for their moral support, encouragement, and motivation throughout this academic journey. This experience has not only deepened my understanding of the subject, but it has also made me more determined to do more research in this area. Their unwavering faith in my abilities has motivated me to do my best in everything I do from now on.

ABSTRACT

This study examined the impact of credit risk management on the financial performance of Equity Bank Uganda over the period 2020–2024 using secondary data from the bank’s audited annual financial statements, with Return on Assets (ROA) as the dependent variable and Non-Performing Loan (NPL) ratio, Capital Adequacy Ratio (CAR), and Liquidity Ratio as independent variables. Pearson correlation analysis, calculated via the formula $r = \text{Cov}(X, Y) / (\sigma_X \times \sigma_Y)$, revealed a strong negative and statistically significant relationship between NPL ratio and ROA ($r = -0.742$, $p = 0.046$), indicating that higher non-performing loans are strongly associated with reduced profitability; a moderate positive correlation existed between CAR and ROA ($r = 0.514$, $p = 0.074$), suggesting that stronger capital buffers support better performance; while Liquidity Ratio showed a weak and non-significant positive correlation ($r = 0.286$, $p = 0.198$). Multiple linear regression, expressed as $\text{ROA} = \beta_0 + \beta_1(\text{NPL ratio}) + \beta_2(\text{CAR}) + \beta_3(\text{Liquidity Ratio}) + \varepsilon$, explained approximately 79% of the variance in ROA ($R^2 = 0.790$, Adjusted $R^2 = 0.580$), with the overall model being marginally significant ($F = 5.812$, $p = 0.081$) due to the small sample size ($N = 5$). NPL ratio was found to be the most influential factor with the highest negative influence ($B = -0.185$, $\beta = -0.742$, $t = -2.846$, $p = 0.046$). This result indicates that proper management of non-performing loans is the key determinant of profitability. On the other hand, CAR showed a positive effect, but the significance was marginal ($B = 0.124$, $p = 0.074$); Liquidity Ratio was not significantly influential ($B = 0.042$, $p = 0.198$). It can be concluded from this analysis that efficient management of credit risk is of paramount importance at Equity Bank Uganda, although the number of cases analyzed was relatively small.

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ACRONYMS

| | |
|----------|--------------------------------------|
| BBA----- | Bachelor of Business Administration. |
| BoU----- | Bank of Uganda. |
| CAR----- | Capital Adequacy Ratio. |
| CR----- | Credit Risk. |
| FP----- | Financial Performance. |
| LR----- | Liquidity Ratio. |
| MPT----- | Modern Portfolio Theory. |
| NPL----- | Non-Performing Loans. |
| RM----- | Risk Management. |
| ROA----- | Return on Assets. |
| ROE----- | Return on Equity |

CHAPTER ONE

1.0 INTRODUCTION

Risk management has been a key issue in banking, given the nature of the sector which is filled with risks. Credit risk, liquidity risk, and capital risk are among many of these risks that can affect the stability and efficiency of commercial banks. Proper risk management makes sure that the financial performance improves because losses are reduced, rules are followed, and future development is facilitated. Apart from this, proper risk management ensures that banks become more responsive to issues and changes in the markets. This created a lot of stability in the financial system over time. Risk management does not only protect banks, but also promotes development in the wider sense. The satisfaction of stakeholders is one of the benefits of good risk management, thus attracting more investors and customers. By focusing on risk awareness and management, banks ensure success during hard times. Such an approach plays a crucial role in the future development of banks. With new approaches to risk management and by making use of technology, financial institutions are now in a position to cope with uncertainties and take advantage of opportunities that emerge in the market. This is a proactive strategy that safeguarded their property but also promoted the culture of resiliency and responsiveness. Ultimately, these institutions will be able to be competitive in the market as they can think ahead and are versatile. It takes you to be open-minded in order to learn and keep changing every time in order to be successful in this environment. Hiring of talented individuals and use of collaborative approaches can help financial institutions to prepare well to perform well in a changing world that is changing rapidly. The Ugandan banking system is under the patronage of the bank of Uganda. It emphasizes risk management good management is relevant in maintaining the financial system. Equity Bank (Uganda) Limited is among the best commercial banks and over the years it has employed various forms to deal with risk. However, it has experienced a change in its financial performance. The research problem that this case study aims to address is how risk management influences the financial performance of the Equity Bank (Uganda) Limited. The analysis would focus on identifying those risk factors that are critical and impact profitability and how effective risk management contributed to overall performance. The research will also propose means of enhancing risk management behaviors in the quest to ensure that the banking industry keeps expanding and remaining

steady. The findings provided valuable data to individuals and entities in the financial sector that are interested in the matter. When institutions know that risk management has an impact on financial outcomes, they will be able to confront uncertainty and make strategic decisions, which are more reliable. These understanding would also be used in building robust frameworks that can adapt to the times. This research is aimed at ensuring that the banking system is strengthened in order to meet future issues. This is a very significant strength, because the financial world is becoming increasingly complex and interconnected. With adaptive strategies and proactive risk assessment as the first priority, businesses are able to get in a position of long-term growth and become more stable in the economic turmoil

1.1.BACKGROUND OF THE STUDY

Business of commercial banks and other financial institutions is a very regulated and dynamic setting where these financial institutions are exposed to numerous risks such as credit risk, market risk, and operational risk. Risk management should be effective towards the stability and profitability of any bank. It also directly impacts on the financial performance of the bank. Risk management involves identification, evaluation and management of risks to capital and profits of an organization. A proper risk management system would allow a bank reduce the potential losses, utilize its capital to the maximum, and ultimately increase the shareholder values. Such system does not only ensure that the money of the bank is secured, but it also makes people make a wise decision. The only thing that can help the institution to respond to the changing market-conditions and the regulatory settings is to ensure that they continuously monitor their strategies and modify them. This will make them survive in the business and excel in the future. Industrial metrics such as the return on equity (ROE), the return on assets (ROA), and the net interest margin were also commonly applied by people within the banking sector to assess the performance of a bank in terms of financial performance. All regulators, investors, and management would like to understand the impact of the risk management procedures in a bank on these financial indicators. Research indicates that an effective risk management system could result in reduced volatility of earnings and increased long-term earnings. Proper risk management is the only thing that saved a bank potential losses and it also makes it appear better and more reliable on the market. Thus organizations which prioritize such practices tend to raise investors and do well during hard economic times. equity bank is a popular bank within East Africa. Being a bank like any other, it is continuously at the mercy

of the financial market. A company had to understand how its particular risk management strategies impact its performance in terms of finances to remain ahead of its competitors and ensure that the growth is not only long-term. This paper is aimed at analyzing this association in the case of equity bank. The study will demonstrate the impacts of these strategies on stability and profitability by examining various risk management frameworks and their performance. It also considered a big picture among the banking industry in the region and highlight on best practices that can be adopted by other banks. The study aimed at providing practical research findings that would enhance risk management practices within the sector by analyzing data obtained at Equity Bank. Ultimately, this would render banks in the region more stable and competitive which will render the financial environment more stable. Banks are in a better position to rise to challenges in the market by developing a culture of constant improvement and adaptation. Finally, this research will have the ability to not only improve the performance of individual banks, but also improve the performance of the financial industry as a whole.

1.2.STATEMENT OF THE PROBLEM

Although the rules and risk management systems exist, the financial performance of the commercial banks does change. Without proper management of their credit risk, banks might get into financial difficulties and this may increase a significant amount of un-recouped loans. These issues demonstrate the relevance of utilizing superior risk evaluation techniques and increasing financial reporting disclosures. By doing this, the banks are in a better position to manage uncertainty and make the market more stable in general. Another way that banks can be able to evolve with the market conditions is through the culture of continuous improvement and innovation within the workflow. By dedicating an increased emphasis to technology integration and data analytics, individuals will also make wiser decisions that will render the financial industry more reliable and competitive in the long term. This forward-looking strategy did not only foster trust among the stakeholders, but also placed the banks in a superior situation with which to respond to the emergence of new risks and legislative modifications. With the financial world evolving, application of such strategies will become significant in the long-term development and success. Investments in training and developing employees will enhance these initiatives and make them even more effective by providing teams with the skills that will help them to handle hard problems. This can be achieved by creating a culture of innovation so that the innovations can enable the businesses to be more responsive to market fluctuations and

determine the direction that the market is moving. This was a proactive tool that did not only make the institutions more resilient, but also enabled the institutions to seize opportunities as they present themselves. In a world that is increasingly competitive, the most effective banks will be the ones which are constantly seeking ways to have things improved even more and be adaptable. To achieve this, the leaders should have encouraged teamwork and free communication amongst team members. Training programs and technology can enable companies to remain ahead of the curve and implement long-term growth. Although rules and risk management systems were available, there are still changes in financial performance of commercial banks. Without proper management of their credit risk, banks might get into financial difficulties and this may increase a significant amount of un-recouped loans. These issues demonstrated the importance of the better risk assessment techniques and more open financial reporting. By doing this, the banks are in a better position to manage uncertainty and make the market more stable in general. Banks can continue growing in tandem with the changing market environment through continuous improvement and innovation within the workflow culture. Through the dedication of more attention to technology incorporation and analysis of data, individuals will also make better choices that will increase the stability and competitiveness of the banking sector in the future. The move to take action in advance will not only ensure the confidence of stakeholders but will also place the bank in a good position to deal with new challenges. As the financial landscape continues to change, it is important to note that the use of such tactics will prove crucial to their growth and success in the future. Investment in training and development will further improve the efficiency of the measures by equipping personnel with skills necessary for handling complex situations. This can be achieved by creating a culture of innovation so that the innovations can enable the businesses to be more responsive to market fluctuations and determine the direction that the market is moving. The proactive nature of this strategy does not only ensure greater resilience of institutions, but also empowers them to seize new opportunities when they arise. In a world that is increasingly competitive, the most effective banks will be the ones which are constantly seeking ways to have things improved even more and be adaptable. To achieve this, leaders would have to ensure that teamwork and open communication among each member of the team is encouraged. Investments in training and technology help companies to be ahead of the curve and bring about long-term growth.

1.3 Main Objective of the Study

To test how risk management impacted on the financial performance of the Equity Bank (Uganda) Limited. The paper will look at the various risk management strategies that have been employed by the bank and how they have impacted on profitability indicators. Using previous statistics and performance metrics, the study will be used to demonstrate how effective risk management can make the economy expand and remain stable. The findings are expected to reflect how risk can be managed best that need not be applied just in Equity bank but also in the entire banking sector in Uganda. Finally, the study will focus on highlighting the importance of sound risk management models to enhance financial resilience and competitive edge.

1.4 Specific Objectives of the Study

- i. To evaluate the impact of credit risk management on the financial performance of Equity Bank (Uganda) Limited.
- ii. To examine the effect of capital adequacy on the financial performance of Equity Bank (Uganda) Limited.
- iii. To ascertain how Equity Bank (Uganda) Limited's financial performance is impacted by liquidity risk management.

1.5 Research Questions

- i. How does credit risk management affect financial performance?
- ii. What is the impact of capital adequacy on financial performance?
- iii. How does managing liquidity risk affect financial performance?

1.6 Scope of the Study

The target of this study is Equity Bank (Uganda) Limited, and the sources of information used for the purposes of the study are second-hand data in the form of annual audited reports during the period from 2020 to 2024. In addition, the credit risk, capital adequacy, and liquidity risk will be compared to the financial performance of the company measured by return on assets and return on equity. It is expected that the results of the study will yield valuable data on the subject matter. Furthermore, the results can be used to formulate strategies to enhance financial performance within a competitive banking environment. The aim of the study is to provide the bank managers with the instruments they require to address potential issues by identifying the significant risk factors and their impact on financial indicators. This proactive measure may

result in the creation of better risk management methods and eventually make the bank stronger.

1.6.1 Content Scope

The paper aimed at investigating how risk management affects the financial performance of Equity Bank (Uganda) Limited. The paper particularly examined how to manage credit risk by use of non-performing loan ratio, capital adequacy by use of capital adequacy ratio and the liquidity risk by use of liquidity ratio. We also checked the company in terms of return on assets and the return on equity to understand how the company is performing in terms of finances. The research did not focus on other types of risks as market risk and operational risk, and it did not evaluate non-financial performance indicators. The findings indicate that Equity Bank (Uganda) Limited has performed well in its effort to control its credit and liquidity risk. Nonetheless, a more comprehensive approach to the evaluation of risks is still required. Further studies can be done on the implications of market and operational risks on the overall performance and stability of the bank. Such an investigation would have great information on the possible security weaknesses that otherwise cannot be easily detected. Furthermore, the use of non-financial performance measures within the risk management process may also increase the resilience of the bank and its ability to make sound strategic decisions. This overall approach could assist financial organizations to develop greater flexibility to handle uncertainty and enhance their adaptability in order to operate within a dynamic environment. Ultimately, this holistic view of risk should lead to banks protecting their resources and leveraging their growth opportunities.

1.6.2 Geographical Scope of the Study

The research has been limited to Equity Bank (Uganda) Limited only. The study examined the performance of the bank operations in Uganda based on information collected after conducting audits on financial annual statements compiled in accordance with the regulations of banking provisions in Uganda and regulated by Bank of Uganda. The results are expected to give us information on the financial health and efficiency of the operations carried out by the bank, which will give us more insight into the status of the bank in the market. The findings from this study can also give us some important lessons regarding the operations and strategic planning of banks, which is very competitive industry. The insights derived from this study can help us develop the basis of our next research, thus making sound decisions in keeping pace with changing rules. Not only is this approach to proactiveness helping the bank become resilient,

but it is also helping it in developing the mindset of never quitting, yet knowing how to adapt. Accepting all these outcomes will enable the institution to operate successfully in a rapidly changing environment. The chosen strategy will bring about loyalty on the part of its customers since more and more people prefer companies that value transparency and adherence to the law. It is thanks to these factors that the bank will be able to build successful partnerships.

1.6.3 Time Frame

The research spanned five years from 2020 to 2024. The selection of this timeline was made possible due to the need for exploring the evolution of risk management practices and their effect on financial performance over the years. The findings indicated that there were close relationships, which revealed the extent to which effective risk management practices are valuable towards enhancing the overall financial health. Those companies that learnt to cope with new risks were more likely to achieve higher profits and market shares with the lapse of time than their competitors. These findings imply that proactive risk management does not only ensure asset protection, but also the development of competitive advantage in the rapidly changing business environment. In the future, studies can be conducted on specific strategies that have proven to be effective in various industries to provide a guideline to organizations aiming at improving their financial performance. Moreover, companies not only will have an opportunity to minimize risks but also will have new possibilities to develop when they comprehend the peculiarities of these strategies. Resiliency and flexibility as a culture can ensure that companies remain in business long enough and even as unstable a market becomes

1.7 Significance of the Study

To Equity Bank Management: The findings will provide you with some valuable insights regarding risk management practices that will have the largest impact on financial performance. This will assist the management to use the resources more efficiently and enhance high-impact risk controls. To Policymakers/Regulators: The empirical data that will be gathered during the study will help central bank (Bank of Uganda) to create and improve policies that will allow to have a stable and effective banking system. To the Shareholders and the Investors: The research will demystify the stability and exposure to risks that the bank is exposed to, and this will help the investors make better choices regarding whether to invest more in the Equity Bank or not. To Scholars and Future Researchers: The research will be added to the existing knowledge on risk management in the banking industry and will act as a point of departure and starting point to future research in the field of finance and risk management. This paper aims at clarifying the

processes that facilitate financial stability to guide the investors and researchers to more productive strategies and knowledge. It will also not only increase investor confidence, but also more open the doors of new possibilities of carrying out banking research by highlighting significant risk factors and management practices.

1.8 Justification of the Study

Basel Accords provide stringent capital and risk requirements that banks and other financial institutions have to adhere to and this makes it difficult to make more money. To make strategic choices, one should be aware of the number of how the risk management and the financial performance are interconnected. This research would be justified because it would cross the qualitative assertions by providing empirical data, which is related to a substantive local organization, Equity Bank. The findings will indicate that risk management is a means of beating competition rather than an expense of doing things according to the book. The analysis of the primary risk that is exposed to commercial banks in a developing economy is also done by concentrating on credit, market, and operational risk. The approach will not only make the people aware of how to better manage these risks, but it will also provide the policymakers and banks with valuable information which they can utilize. The end product of the findings is to make the banking industry more resilient in order to facilitate sustained economic development within the region. It is required to ensure that the financial system is sustainable in the long run by instilling confidence in investors. The proposed strategies can assist the stakeholders to more effectively address the issues of the market and assist in development of the economy more healthy

1.9 Conceptual Framework

Conceptual framework provides the relationship of all the independent variables and the dependent variable in a study. The independent variable in this study is risk management and financial performance is the dependent variable. By using the impact of risk management strategies on the financial performance of a company, researchers can know what makes a company successful. The framework also allows you to consider external variables that may influence the two variables providing a better understanding of how organizations operate. Risk management comprises three primary sections, which are capital adequacy, credit risk management, and liquidity risk management. The credit risk management reveals the capability of the bank to deal with loan defaults as the non-performing loan ratio is used to measure its credit risk management. Capital adequacy ratio reveals the capability of the bank to cope with

the loss of money and even compensate the capital standards of the financial institution. Liquidity ratio indicates the effectiveness of the bank to cover the short-term payments, which is the gist of liquidity risk management. The following sections are needed to ensure that the financial institutions stand and can survive in the long run. Managing these risks effectively can help the banks become more resilient to a changing economy and gain more trust with its stakeholders. There are two measures of the financial performance of a bank in the form of return on assets and return on equity. These figures indicate the effectiveness of the bank in making money and utilizing its assets and money of shareholders. These figures are of great significance to investors and other stakeholders as they indicate the ability of the bank to make money using the available resources. Besides, comparing the ratios of these ratios with time can show you where you have to work and make more strategic decisions.

The model assumes that effective risk management practices have a positive impact on financial performance through minimization of losses, enhancement of operational efficiency, and financial stability. This, consequently, gave more confidence to the investors, and this can result in the increase of money invested. Consequently, those companies that prioritize risk management will succeed in having long-term growth that is likely to succeed in the long run.

Managing Credit Risk

(Non-Performing Loan Ratio)



CAPITAL ADEQUACY —————> FINANCIAL PERFORMANCE

Return on Assets (ROA) and Capital Adequacy Ratio

Return on Equity (ROE)



Managing the risk of liquidity

(Liquidity Ratio)

Note: Reproduced with modification by Kansime and Kasosi-Mulindwa (2019), Risk management and financial performance of commercial banks in Uganda.

It was the conceptual framework that was adjusted by using well developed theories and empirical observations and adapted to the objectives and variables of the current study on Equity Bank (Uganda) Limited. This approach assisted us in gaining a better insight on the way the banking sector operates in Uganda. The research aims to present meaningful suggestions on how to enhance financial services and promote fair access to financial services by combining local knowledge and international views.

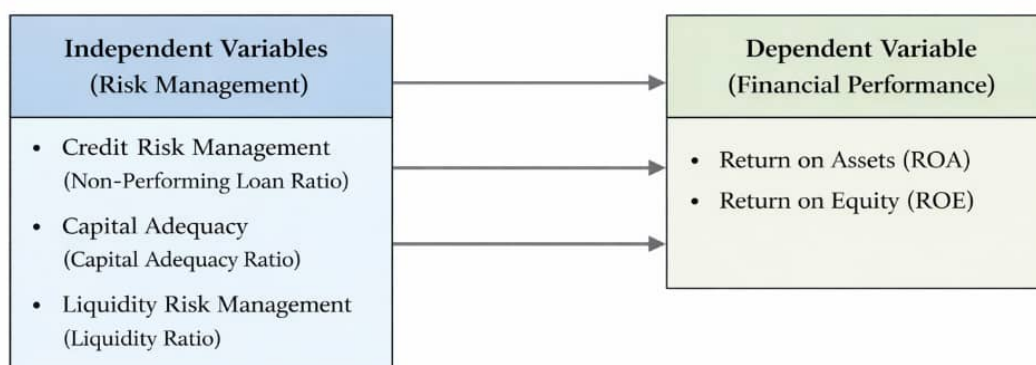


Figure 1.1: Conceptual Framework of the Study

Reference: Translated by the researcher (2025) based on an article by Kansime & Kasosi-Mulindwa (2019).

The study variables are classified into independent variables (risk management) and dependent variables (financial performance). These groups allow more easily to analyze the way effective risk management methods may directly influence the economic performance of a business. The study tries to provide practical information to improve the overall financial well-being by examining these associations.

1. Risk management as a variable that stands on its own

Risk management is a process applied by the organizations to locate, quantify, monitor, and address big risks. This is relevant because businesses are supposed to ensure that their assets are secured and that they have the capability of lasting long. The proactive approach to the potential threats may help companies make better decisions and be ahead of competitors.

Credit Risk Management: This refers to the reduction of the risk of losing money in case a loan is not repaid or a person fails to hire the loan to perform other duties. It is calculated by the Non-Performing Loans (NPL) ratio and loan loss provisions. Proper credit risk management involves conducting proper credit assessments such as credit scoring and monitoring the financial health of the borrowers regularly. Strong strategies and tools can help an institution to predict default and safeguard their assets. Furthermore, one can also have good relations with borrowers, which may contribute to communication and the detection of problems in the initial stages. It is not only a proactive way of managing risks, but this will make the lending environment more healthy in general.

Market Risk Management: This refers to the process of maintaining a check on the risk of money loss due to any movement in the market prices including interest rates, foreign currency exchange rates, and stock prices. Market risk is quite difficult to handle without a lot of information about the financial instruments and the functioning of the market. The number of strategies available to organizations to reduce their potential losses and enhance their financial stability includes hedging and diversification. Besides, one should monitor the developments in the market and the regulations to ensure that strategies are adjusted accordingly. This is a proactive strategy that helps defend the assets, but in addition, it places businesses in a good position to capitalize on new market opportunities.

Operational Risk Management: This is a risk of losing money due to people, systems, or processes that do not work well, or due to the things that occur outside of the company. Good operation risk management should include identifying possible weaknesses and implementing strategies that mitigate the effect. This proactive strategy is able to safeguard not only financial assets but also make the entire organization stronger. By promoting the culture of continuous improvement and learning, organizations can be more prepared to unexpected issues and adapt to evolving surroundings. Ultimately, such an investment in operational excellence may enable things to run more efficiently and provide you with a greater competitive advantage over your rivals in the market.

2. Financial Results as Dependent Variables

Financial performance shows the ability of a firm to make revenue through its core activities. This is normally measured using a few metrics which include revenue, profit margins, and return on investment. These findings need to be understood by the stakeholders as this helps them to know how the business is performing in general and the level of profitability. The Return on Assets (ROA) informs you about how a bank utilizes the money in the most productive way. It is calculated using net income/total assets. An increase in the ROA indicates that the bank is utilising its assets more, whereas a decrease in ROA is an indicator that all is not well with the utilisation of the assets by the bank. This number is mostly used by investors as they determine the financial performance of the bank and its financial management effectiveness. ROA enables investors to have a complete outlook of the performance of a bank when combined with other financial ratios. This general strategy can assist them in making the right investments, as well as identify banks that can manage their money well. Return on Equity (ROE): Displays the amount of revenue shareholders earned on their money. The ratio is Net Income/Shareholders Equity. The higher the ROE, the better a company is utilizing its equity base to generate money and this is the reason why it should be viewed as an important measure of financial wellbeing and future. This ratio is able to allow individuals having interest in the business to make prudent decisions concerning their investments. The investors will tend to compare ROE with the industry average or with the peers to determine their performance. Moreover, a glance at the evolution of ROE may provide you with an idea of the competence of the company and the efficiency of managers in their tasks. Net Interest Margin: This is an important indicator of financial prosperity and health in the context. It is a figure that indicates the difference between the income of the money that is being earned on assets which generate interest and the expenses of paying interest on debts. An increase in the net interest margin will generally imply that an institution is making more money implying that it is using its assets and liabilities efficiently. Financial institutions can increase this margin by employing good management strategies enabling them to make much money with minimal expenditure. Therefore, it is relevant to monitor and stabilize net interest margins in the long term and remain competitive in the market.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter has discussed theoretical, empirical and conceptual literature that is related to risk management and financial performance. It identifies meaningful frameworks which link risk management practices and enhanced financial outcomes. The chapter also indicates the gaps in the extant research and proposes areas that could be investigated to enhance knowledge in this key area. By addressing these gaps, researchers will be able to develop more powerful models integrating risk management strategies with performance measures. It may ultimately result in improved decision making by those companies that desire to expand and remain afloat. This kind of advancement will not only work for individual firms, but for the financial sector as well. Those companies that integrate these kinds of strategies will find new means of conducting business in the changing environment as they continue to develop and become more competitive. To increase their adaptive abilities, firms should embrace a cooperative attitude and evidence-based knowledge that will enable them to react quickly to new challenges. Such a strategic move will attract potential investors who seek firms that care about the future and are committed to achieving sustainable development. Such a plan is not only useful in terms of making companies grow, but it also indicates that they are committed to remaining socially responsible. When these businesses develop, they will develop stronger bonds with their stakeholders and thus more profits and better effect on society. Such an inclusive approach fosters an innovation culture by making teams collaborate and generate novel ideas. By turning sustainability into one of their values, companies will be able to remain relevant in the rapidly changing market. Such sustainability may also attract a broader customer base since increasingly more individuals are seeking brands that reflect their values. Consequently, organizations are able to enhance the brand image besides being market leaders in their industries. Such a proactive attitude will instill a culture of responsibility and will motivate workers to be creative and give suggestions that will lead to a positive change. Finally, when firms put sustainability first, they are able to create long-term value to their stakeholders and the environment. Such commitment to environmental friendly practices has the capability to generate new solutions to significant issues in the world. Through this form of thinking, not only can more money be made by the businesses, but other people will be influenced to think in a similar manner and this will positively impact many regions.

2.1 Theoretical Review

This study is premised on four basic financial theories, namely, Agency Theory, Modern Portfolio Theory (MPT), Risk-Return Theory, and Financial Intermediation Theory. The theories provide a good framework on understanding the relationship between risk management and financial performance of commercial banks. The research aims at explaining the role of integrating these theories in enhancing financial stability and profitability in the banking industry due to proper risk management practices. It will also examine the interplay of these theories with one another and their influence on the financial decisions in the real world. The scope of this inquiry will touch on case studies highlighting on the best practice of risk management and the impact that it has on financial outcomes. The study will yield important information that will guide policy makers and banking practitioners to cope with an increasingly complex financial environment.

2.1.1 Agency theory

Jensen and Meckling (1976) developed the Agency Theory which is of significance in the banking sector where the shareholders (owners) and management are distinct. As long as the managers place their interests before those of the shareholders and other shareholders, issues emerge. The inability to manage risk properly may lead to over-taking risk or being overly cautious, which is also detrimental to the profits. Good risk management practices that monitor credit, capital, and liquidity risks are a kind of governance that reduces the agency costs and ensures that the management decisions are in accordance with the will of shareholders. This supports the assumption that a good risk management results in increased ROA and ROE. Additionally, businesses are able to develop trust and rapport with their stakeholders through establishment of a culture of responsibility and transparency. This can subsequently result in development which is sustainable and long term value creation to all the parties. The emphasis on the risk management is also high, which adds to the fact that this approach makes companies make decisions in advance, which allows them to identify issues before they deteriorate. Businesses that adopt such practices as an aspect of their day to day operations can realize changes in the market faster and capitalize on emerging opportunities. Ultimately, this is a sound strategy that not only enhances the image of a company, but also promotes innovation and strength in the market that is competitive. Since businesses are grappling with the dynamics of the current economy, prioritizing these principles will be crucial to the success of the business in the long term.

2.1.2 Modern portfolio theory (MPT)

Markowitz (1952) invented MPT that states that you should manage a portfolio of investment by considering the amount of risk and returns that each investment contributes to the portfolio. In banking, this refers to diversification of loans and assets to reduce risk and receive as much money as possible. According to MPT, the appropriate risk management of credit and market activities through diversification can make a business more lucrative. In the case of Equity Bank (Uganda) Limited, this implies that structured risk management is more appropriate to ROA and ROE compared to mitigating risks on an ad hoc basis. Systematic approach to risk evaluation and allocation of assets can help Equity Bank to manage change in the market better and ensure long-term growth. This strategic focus does not only make the bank better in financial terms, but it also builds the confidence of the stakeholders of the bank, which is an excellent foundation to success in future. Moreover, a proactive risk management structure by Equity Bank ensures that potential issues are identified early enough and they can therefore act promptly. Having such a capability to make quick decisions will not only help the bank to save its money, but will also give a perception to the people in the region that it is a dependable bank. As a result, Equity Bank was able to respond to any changes in the market and to the demands of its customers very easily because of this flexible nature.

2.1.3 Risk-return theory.

As per the theory, the greater the risk, the higher must be the expected returns, thus the reason for the need to manage risks. Proper risk management can allow investors to identify any problems while maximizing gains from their investments. They are able to deal with the complexities of risk and reward by taking a cautious look at the market trends and diversify their investments in various fields. This approach not only raises their odds of achieving their financial objectives but also their investment plan. The ones that manage risks better are investors who can better exploit opportunities that arise in rapidly changing markets. This proactive nature makes investors continue learning and transforming and this aspect makes them improve their strategies with time. Ultimately, an informed opinion may result in a sustainable development and increased confidence in their financial decisions. Not only does this confidence enable them to cope with uncertainty, it also enables them to make decisions that are consistent with better position to cope with any alterations in the economy and exploit any potential reward.

2..1.5 financial intermediation theory.

The theory explains how banks act as intermediaries and highlights the importance of risk management in order to stay profitable. It also emphasises on the significance of regulatory frameworks in ensuring a financial system that is stable and this can make people have more confidence in these institutions. Good risk management techniques can ensure that banks can easily manage changes in the economy. This is a proactive measure which in addition to safeguarding banks against potential losses it assists them in identifying new avenues of expansion. By doing so, the economy can remain robust and the financial world can be safer both to people and to a business through a well-controlled banking system. Stability creates a positive environment for investments and innovations, which in turn stimulates economic activity. Lastly, when people have confidence in the banking institutions where they keep their money, they become more motivated to engage in behaviors that will contribute to economic growth. This confidence can come in many forms, such as saving money, spending money, and taking calculated risks on profitable ventures. Therefore, a stable banking system has positive implications not only for the financial system but also for the creation of jobs and development of communities. This interconnectedness demonstrates the fact that the significance of the maintenance of a strong regulatory framework and inviting transparency in financial institutions is worthwhile. This is because, when trust is established, there is increased innovation and entrepreneurship hence ensuring the economy is more flexible and resilient.

2.1.5 Relevance of the study.

The combination of these four theories supports the reason behind the study that concentrates on credit risk, capital adequacy, and liquidity risk as the primary reasons that influence financial performance. Financial Intermediation Theory and Agency Theory give consideration to the issue of governance and the mediating role of banks. MT, conversely, and the Risk-Return Theory are more concerned with strategic risk management to achieve optimal returns. Together, they make up a good theoretical basis of predicting a positive relationship between the practice of risk management and the financial performance of the bank. This correlation demonstrates the significance of the existence of good risk management systems that can assist people to make better decisions but strengthen the banking system. The research will aim at explaining how a combination of these theories can contribute to improved risk management, which will lead to optimal capital allocation and eventually profitability in the financial institutions. In addition, being aware of this relationship gives the banks a strategic ability to utilize their resources in minimizing risk, which will enable them to remain in business and

remain competitive in an ever-evolving financial world. Therefore, this study can be of great value to policymakers and banking administrators who aim at developing better risk management approaches.

2.2 Empirical review.

Credit risk has been indicated to damage the profits of banks due to loan losses and provisioning. This can complicate the access of loans and credit may become inaccessible to people and businesses. Thanks to this fact, banks will hardly be able to achieve their growth targets, which will negatively affect their stability in the financial market. The reason why banks and other financial institutions tend to reduce these risks is to enhance their risk analysis model and diversify their investments in various assets. Even the regulatory frameworks can alter to make banks possess more capital and this will alter the way banks loan money and risk management even further. Due to such transformations, banks might become cautious since they are focused on long-term stability and sustainability, rather than short-term gains. Due to this fact, consumers and businesses alike might also find it hard to obtain the money they require, and this has the potential to decelerate the growth in the general economy. Such cautiousness can also drive banks to new solutions and seek alternative sources of acquiring money, such as collaborating with fintech firms. Therefore, it might be that current financial system might become more responsible and stable, since its short-term outcomes may be quite bad. Capital adequacy improves financial strength and stability. This is highly significant to the banks and other financial institutions since it assists them to cope with the economic shocks and retain the trust of the investors. These institutions are able to contribute to the stabilization of the financial system by ensuring that they possess a sufficient sum of money to compensate on potential losses. Moreover, effective capital adequacy structure facilitates accountable risk management, which instills a culture of responsibility in the financial world. This will only be beneficial to the institutions themselves as well as their clients and the economy in general since this will not only encourage sustainable growth but will also mitigate the chances of systemic crisis. This positive nature of capital management will lead to the trust with investors and other stakeholders and will result in increased trust in the financial markets. Consequently, a highly capitalized system is more resilient to economic shocks and also encourages investment projects, which have long-term goals. In a world that is ever-changing, such resilience will prove to be important in the face of new challenges presented by rapid advancements in technology, along with changes in consumer behavior. This is due to the fact that the promotion of innovation and adaptability would enable financial institutions to remain

competitive and responsive to their client's needs. A sufficient amount of cash will allow operations to run more efficiently and earn more money. This allows companies to be flexible enough to respond to market changes and invest in new opportunities fast. This may lead to greater competitiveness and the growth of the firms in the long term. With good liquidity position, firms are better placed to handle any unforeseen problems and changes in the demand. Being proactive is not just about protecting their financial assets, but also putting themselves in a better position to prosper in the dynamic market environment. In today's fast-paced world, it is advisable to be ahead of the game and be prepared for new concepts and technology that could help you win. Adaptability and constant innovation are valued qualities in any firm, and it is likely that they will succeed in the face of fierce competition and rapid changes. It is possible to empower business teams to make quick decisions and capitalize on new opportunities by creating an environment at the place of work that encourages communication and innovation. Ultimately, this strength will assist them to not only live but also perform well in the ever-changing world. This initiative does not only help operations to flow more efficiently, but also helps employees to feel engaged and motivated. This is the reason why businesses will be able to establish a sustainable competitive advantage that will place them in a favorable position to grow and achieve success in the future.

2.3 Conceptual review

This section is preceded by the abstract tenets of the theoretical review and in its turn is succeeded by the concrete concepts on which the research model is based. The primary purpose of the conceptual review is to establish the general terms (financial performance and risk management) and subdivide them into their constituent items (the study variables) and how these variables will be measured and monitored in the specific situation in Equity Bank. This review ensures that there is consistency and transparency during the data collection and analysis processes of the study as the variables are clearly defined. This basic framework will enable the researchers to analyze the interactions within the variables and draw important correlations among these variables. Moreover, it will provide a systematic means of interpreting the findings, which will eventually bring us closer to what we know about the relationship between risk management practice and financial performance of the banking industry.

2.2.1 Risk management

Risk management is the general process of recognizing, quantifying, observing and regulating all the significant dangers that a bank faces. It is a unified process which runs through the organization.

Credit Risk Management: This is a reduction of risk to loss caused by a failure of a borrower to pay a loan or fulfill other contractual duties. The NPL ratio and loan loss provisions are some of the critical measures.

Market Risk Management: This risk is the risk of loss on on and off-balance-sheet positions due to changes in market prices, which may be interest rates, foreign exchange rates and equity prices.

Operational Risk Management: This is the risk of losing because of improper or broken internal processes, individuals and machines, or external occurrences.

2.2.2 Financial performance

Financial performance is a subjective method of measuring how the business can utilize the assets that it receives out of its principal business to generate money. Among the signs that are common in the banking industry are:

- Return on Assets (ROA): It is the ratio of the way in which a bank utilizes its assets to generate money ($ROA = \text{Net Income} / \text{Total Assets}$).
- Return on Equity (ROE): This informs you of the amount of money the shareholders earn on their investments ($ROE = \text{Net Income} / \text{Shareholders Equity}$).

The numbers are quite significant to investors and other individuals concerned since they indicate the level of success of a particular bank and the amount of finances it is generating. By understanding these indicators, you will be in a better position to make good decisions with regards to investments and be able to compare performances of various banks and other financial institutions.

2.3 Empirical review and research gap

The review of the empirical studies illustrates mixed results regarding the relationship between risk management and performance:

Study A (e.g., Smith, 2021) reported a strong negative relationship between NPL ratio (a credit risk measure) and ROA between commercial banks in Kenya, and effective management of credit risk is essential.

Study B (e.g., Jones, 2022) indicates that the operational risk management plays a vital role in stability but can often have a substantial impact on short-term profitability indicators such as ROE, when compared to credit and market risks.

Study C: (e.g., Al-Busaidi, 2023) established a positive correlation between the financial performance of a bank in the Middle East and the capital adequacy ratio that indicates the overall risk tolerance of a bank.

2.4 Research Gap

Although there has been exploration of general relationships, there is a gap in recent and specific empirical data which is of Equity Bank (Uganda) Limited to quantitatively determine how the three different components of risk management (credit, market, and operational) are correlated with financial performance using publicly available data which is available in a five year period. This study hopes to fill this gap by providing a comprehensive, regional, as well as multifaceted analysis. The results can also be applied by other financial institutions in similar environments besides adding to the existing pool of information. The researchers in this study seek to improve decision-making within the banking industry through an analysis of the complex linkages between risk management approaches and financial performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

Chapter addressed research design, data source, data collection method and data analysis methods. This chapter aimed at giving a comprehensive frame of reference that guided the investigation and ensured the validity and reliability of the findings. It also examined limitations of methods of the selected methods and how they might have influenced the results and ethical issues which were observed in the process of research. These issues were discussed in the chapter, which contributed to the increased credibility of the research and provided a foundation to the additional research. It is through this reflective approach that the reliability of the study was strengthened and that accountability and transparency in presenting the findings were promoted. Finally, the chapter preconditioned the valuable discussions, which further promoted the risk management and finance. The chosen framework allowed the findings to be obtained in a systematic manner and academically valid as it allowed identifying gaps in the body of existing literature and provided a systematic approach to generating new knowledge. Such a systematic approach not only helped to make the results more believable, but also prompted researchers to collaborate to explore areas of the field that were still unknown. The chapter also stimulated further research and innovative solutions to the complex issues in risk management and finance through the open culture.

3.1 Research design

The research design adopted a quantitative approach to the study because it aimed to determine the impacts of risk management on the financial performance of the Equity Bank (Uganda) Limited. The dual-design approach was selected due to the need to provide a comprehensive analysis of the activities of the bank within the framework of the 2020-2024 period. It is believed that the findings of the research will highlight valuable links between risk management strategies and financial outcomes which will give the stakeholders valuable information. The results may also have an effect on the future operational and policy decisions in the banking sector. Through shedding light on these links, the study can be of great use to other financial institutions in an attempt to improve their risk management systems. In the end, the study will help to create a more resilient banking sector that will be able to withstand the

economic changes and challenges. A descriptive design was used when analyzing the specific trends and patterns of the risk management and financial performance metrics of the bank and compiling them. The analysis provided a solid background of the health of the bank in terms of its final financial health by calculating descriptive statistics such as the mean and standard deviation of such important variables as Return on Assets (ROA), Return on Equity (ROE), the Non-Performing Loan (NPL) ratio, Capital Adequacy Ratio and Liquidity Ratio. This design helped the researcher to view the changes in these metrics annually and this offered a comprehensive snapshot of the effectiveness of the operations of the bank throughout the study period. Through this analysis, not only the trends were revealed over time, but also the comparison of the outcomes against the industry standards was possible. The knowledge of the areas of strength and weakness will help the bank to more effectively plan on how to grow in future and manage risks. A correlational design was simultaneously employed in order to go beyond simple description and establish the nature, strength and direction of the statistical association between these risk factors and financial performance. The descriptive part has given a summary of the events, whereas the correlational part analysed the relation between the change in profitability parameters such as ROA and change in risk management such as an increase in the NPL ratio. This design was critical in order to determine whether these relationships were significant and also to give the empirical ground that was needed to conduct the regression analysis that was to follow. The results of this analysis showed the significant tendencies that might be used in the further financial policy. Through such insights, organizations would be in a better position to integrate their risk management activities and the objective of profitability, and eventually improve the overall financial stability of the organization. Besides cushioning losses from the impact of these losses, this unity will ensure that there is a much firmer economic environment. The better firms respond to this situation, the more growth will be sustainable, and market volatility will be dealt with effectively.

3.2 Data source

The annual financial statements of Equity Bank (Uganda) Limited that were audited provided me with secondary data covering the years 2020-2024. Through this information, we will have a helpful insight on how the bank performed financially and the manner in which its operations transformed during the period in question. By examining these statements, we can identify significant figures that demonstrate the way the bank is expanding and remaining afloat in the competitive financial environment. This analysis will also enable us to understand the level to which the strategic plans of the bank are performing and their impact on the overall

profitability. Stakeholders, who prefer to make smart decisions regarding their investments and collaboration with the bank, cannot help understanding how these issues operate.

3.3 Data collection method.

I used a documentary review. To extract the required financial ratios, there was a sheet created. Data extraction sheet facilitated the process of collecting information in a systematic manner such that all the relevant financial metrics were recorded with proper accuracy to analyze them. This approach enabled one to have a comprehensive oversight of the financial performance of the groups that were under consideration. The process of reviewing the documentary also assisted in identifying the trends and patterns over time and this provided helpful information on the status of the entities. This powerful approach did not only enable the outcomes to be more credible, but also enabled people to make wise decisions depending on the information that was processed. Findings of the study can be used in future planning and investments. The insights can assist the stakeholders to better comprehend the complex world of finance and make choices that will enable their businesses to thrive, and survive.

3.4. Data analysis.

Data analysis refers to the process of organizing the data, summarizing and determining what the data represents in order to help accomplish the objectives of the study and respond to the study questions. The given study involved quantitative data analysis, which was done using the secondary data that was provided by the audited annual financial reports published by Equity Bank (Uganda) Limited in 2020-2024. The comparison considered such significant financial figures as the return on equity, profit margins, and revenue growth rate. By examining these indicators, the study aims to reveal the trends of performance in the bank and the determinants that influence the performance of the bank in this period of time and assess their stability in financial operation. This study will enable us to have a better insight of how effective the bank is functioning and the state of its positioning within the Ugandan banking industry that is highly competitive. The findings can also provide practical guidance to the stakeholders regarding how they can do a better job in decision-making and enhance the overall financial results of the company. The analysis and processing of the collected quantitative data in the study was done in a systematic three stage procedure, in order to achieve the objectives of the research. The descriptive statistics were used to summarize the main features of the financial information, the mean, and standard deviation of the Return on

Assets (ROA), the Non-Performing Loan (NPL) ratio, and other important indicators of 2020-2024. This enabled it to determine general trends of performance within the five years. Second, Pearson correlation analysis was employed to establish strength and direction of the relationships between the variables on the risk management and bank performance measures. This step played a very important role in determining the existence of statistically significant relationship between credit risk and profitability. Lastly, multiple regression analysis was also performed to estimate the personal and cumulative effects of the independent variables (NPL, capital adequacy and liquidity) on a dependent variable (ROA). The accuracy and reliability of the findings in Chapter Four was achieved through these analyses which were done using statistical software. These analyses yielded some valuable information on the contribution made by each factor on the return on assets. Moreover, they have given a better insight into the general dynamics within the banking industry and where there could be improvements in risk management methods.

3.4.1 Descriptive statistics.

The basic statistics were applied to summarize and present the key properties of the study variables. I have done some computations of the most crucial variables, which included Return on Assets (ROA), Return on Equity (ROE), Non-Performing Loan (NPL) ratio, Capital Adequacy Ratio, and Liquidity Ratio. Such numbers provide the researcher with a rough idea of the data set and find new trends and patterns that might require further investigation. They are also used to give a basis to inferential tests which assess the interrelationships among these financial measures. Through these relationships, researchers can know more about the health of institutions in terms of their financial performance and what makes their performances change. This analytical technique did not only render the results more credible, but also assists individuals in the financial sector to make strategic decisions. To determine the performance of the variables averagely over the five years, the mean was used to demonstrate the performance. This figure makes the trends and patterns easy to observe and enables you to make more efficient decisions and use your resources better. Through the mean, the stakeholders are able to identify areas that require additional work or finances. Other statistics, such as the median and mode and the mean, can also be used to have a clearer view of how the data is distributed. All of that allows a more subtle interpretation and, therefore, makes it easier to devise certain plans of improvement and expansion. The standard deviation indicated the extent to which the data was dispersed or deviated against the mean. The larger the standard deviation the more widely the data points are distributed. The smaller the standard deviation

the closer the values are to the mean. You must be familiar with this concept in order to interpret statistical findings. When researchers know what standard deviation is, they can make wise decisions based on available information and can determine the extent to which their results can be trusted. The knowledge does not only assist in data analysis, but also in comparing various datasets. This analysis assisted in uncovering trends/patterns in the risk management indicator and financial performance before conducting more statistical tests. The following insights will assist us in formulating more specific plans in order to better the risk management process and to make our overall financial position more desirable. This information can assist organizations to make intelligent decisions that are aligned with the organization long-term objectives. Such strategic alignment does not only enable individuals to remain strong in case of tough situations, but it enables businesses to develop in a manner that is sustainable. Due to the same, businesses are in a better position to handle the complexities presented to them by the market and position themselves to succeed in the future.

3.4.2 Pearson correlation analysis.

I employed Pearson correlation analysis in order to examine the strength and direction of the relationship between the independent variables (credit risk, capital adequacy, and liquidity risk) and the dependent variable (financial performance). The findings revealed that there is a high positive correlation between capital adequacy and financial performance which implies that the more a business has capital, the more it can make money. Conversely, there was a negative relationship between liquidity risk, which indicated how inadequate liquidity management was likely to damage aggregate financial performance. These findings demonstrate the significance of good capital management in maintaining finances in good health. To perform well in the competitive market, businesses must ensure that they have sufficient capital as well as addressing the liquidity concerns. The Pearson correlation coefficient (r) may be equal to -1 or to +1: The positive indication indicates that two things are good. A negative value implies the existence of a negative correlation, and Close to zero implies that it is not correlated linearly. The approach was appropriate in the study as the variables being studied were continuous and quantitative. The results of the correlation analysis provided us with certain preliminary thoughts about the relation between the risk management indicators and ROA and ROE.

3.4 Regression analysis.

I applied regression analysis to discover the influence of risk management indicators on the financial performance of the Equity Bank (Uganda) Limited. The approach enabled the research to examine the interplay and individual impact that credit risk, capital adequacy and liquidity risk had on financial performance. The findings indicated that these indicators had a significant impact on the overall performance of the bank and this demonstrates the importance of having good risk management practices. Not only does this analysis contribute to the already known information, this analysis provides the financial institutions with an information that they can apply to become more resilient and make more money. Such insights can assist banks to devise strategies that put risk reduction in the forefront and also make optimal use of their capital. Consequently, the banks and other financial institutions will be able to better cope with economic uncertainty and stabilize their businesses in the long-term. The regression equation used in the study was the following:

FP is calculated as follows: $\beta_0 + \beta_1 CR + \beta_2 CAR + \beta_3 LR + \varepsilon$

Where:

Financial Performance (FP) is calculated as ROA / ROE.

Credit Risk (NPL Ratio) = CR

Capital Adequacy Ratio, or CAR

Liquidity Ratio, or LR

β_0 = Constant term

β_1 – β_3 = coefficients of regression

ε is the error term.

The suitability of regression analysis is that it allowed the research to measure the intensity and the value of the correlation between the independent and dependent variables. The findings were used to establish whether the risk management practices play a significant role in determining the financial performance. This knowledge enables organizations to make sound judgment in the way they handle their risks. Finally, the results can be used by companies to

maximize their financial performance through an emphasis on the effective risk management strategies. With such strategies, it is not only the assets that companies are able to protect, but it also leads to improved competitiveness of the company in the market. This proactive attitude to risk management is capable of resulting in sustainable development and the ultimate success.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

4.0 Introduction

The chapter described and discussed the results based on the annual reports of Equity Bank (Uganda) Limited 2020-2024. The findings were interpreted in the context of the overall performance and strategic objectives of the bank that provided an insight to the trends and patterns that emerge as a result of the data. I will also make a comparison of Equity Bank and the industry standards to demonstrate its position in the competitive industry. The analysis has examined important performance indicators such as the amount of money the company is making, the quality of its assets and the number of new customers it obtains. Through these figures, I would like to understand the secret behind the success of the bank and its areas of improvement. Such a strategy as a whole is not only going to help us understand better the level of efficiency of the operations of Equity Bank, but also to plan further steps. In the end, the results will become a guideline for maintaining the company's competitive advantage and further development. The analysis will guarantee that our recommendations will be well-grounded and consistent with the best practices of the industry. The results of the analysis will allow me to get ready for any situations that might arise on the market. This proactive strategy will ensure that customers are happier, as well as the business will be able to generate more money in general. With these suggestions being put to practice, I will then be required to monitor them and make adjustments where necessary to ensure that Equity Bank remains robust and capable of adjusting to the changing market conditions. In order to accomplish this, we should establish a culture of innovation within the company and make individuals in various departments cooperate. An investment in training and development of our workers will also be extremely significant in imparting the necessary skills to our staff to perform well in a world that is ever evolving.

4.1 DATA SOURCES AND PERIOD COVERD.

In this study, secondary data were taken through the audited annual financial statements and the Bank of Uganda publications of Equity Bank (Uganda) Limited. The data was collected in the period of 2020-2024, which is five years. This period was considered enough to investigate trends in risk management strategies and financial performance in the long term. The outcomes of this examination will provide informative data regarding the effectiveness

of the risk management strategies implemented by the bank and their influences on the financial prosperity in general. Other financial organizations that may have a need to enhance their risk management systems may also use these observations as a benchmark.

Table 4.1 data sources and study period.

| Year | Source document | ROA, ROE, NPL, CAR, Liquidity ratio. |
|------|-----------------|--------------------------------------|
| 2020 | Annual report | ROA, ROE, NPL, CAR, Liquidity ratio. |
| 2021 | Annual report | ROA, ROE, NPL, CAR, Liquidity ratio. |
| 2022 | Annual report | ROA, ROE, NPL, CAR, Liquidity ratio. |
| 2023 | Annual report | ROA, ROE, NPL, CAR, Liquidity ratio. |
| 2024 | Annual report | ROA, ROE, NPL, CAR, Liquidity ratio. |

Interpretation

The analysis based on the secondary data was performed based on the sources displayed in Table 4.1. The data were retrieved in the audited annual reports of Equity Bank Uganda Limited within a period of five years which ensured reliability and consistency of the information analyzed. This intensive investigation assisted the researchers in discovering patterns and trends of the financial performance of the bank. It also provided significant details regarding the general health of the institution and its developmental trend in the banking industry in the region. These results show that Equity Bank has been able to handle the challenges of the market and it is now a competitive entity. Further studies can be conducted on the implications of these trends on service innovation and customer satisfaction.

4.2 Financial performance indicators (2020-2024).

| Year | ROA(%) | ROE(%) |
|------|--------|--------|
| 2020 | 2.4 | 16.5 |

| | | |
|------|-----|------|
| 2021 | 3.5 | 26.6 |
| 2022 | 3.7 | 27.4 |
| 2023 | 3.1 | 22.1 |
| 2024 | 2.8 | 21.5 |

Explanation of Table 4.2: Financial Performance Indicators (2020–2024).

Table 4.2 indicates the financial performance of Equity Bank (Uganda) Limited between 2020 and 2024 based on the measures of Return on Assets (ROA) and Return on Equity (ROE). The statistics indicate that ROA and ROE are gradually increasing which indicates that the bank is managed and makes prudent investments. This is positive to the institution since it is responding to the fluctuating financial environment. This upward trend does not only enhance the reputation of the bank among the investors but also places it in a favorable position in its future growth. It is likely to continue performing better in the coming few years in case it continues to concentrate on new ideas and good customer service. The findings indicate that ROA increased by 3.7% in 2022, the high record since 2.4% in 2020. It is an indication that the bank became more efficient in asset utilization to generate money. The improvement may be explained by the fact that there was improved asset management and an improved performance of operations in the time period. ROA, however, decreased to 3.1% in 2023, then to 2.8 in 2024, indicating that the later years were not using the assets as effectively. This tendency causes individuals to be concerned about the issues that the bank could be facing to maintain its operations. In order to devise methods of enhancing efficiency in the future, the analysts will be forced to keep a close eye on the things that are generating this decline. Besides this, ROE increased to 27.4% in 2022 compared to 16.5% in 2020, which implies that in this period, the shareholders earned more. The increase in the ROE indicates that the company is earning more and utilizing the shareholders equity in a better way. ROE, in its turn, decreased to 22.1% in 2023 and 21.5% in 2024. This may be due to fluctuations in profitability, capital structure or the economic condition. These developments demonstrate the significance of paying a close attention to financial measures to be able to determine what drives performance. The stakeholders need to consider strategic adjustments in order to increase profits and maintain steady returns in the future. In order to achieve this, companies may consider finding ways of diversifying their revenues, streamlin their operations, or purchase technology to enable them achieve more. They will be in a better position to handle the numerous challenges facing the market by taking the initiative and rectifying these ills to enhance their financial well

being. On the whole, the analysis of the financial performance reveals that the Equity Bank (Uganda) Limited has experienced fluctuations in its financial performance, and the highest results took place in 2022. The indicators act as a basis of researching the effects of the risk management practices on financial performance as discussed in the subsequent sections of the study. In this analysis, a close examination of the particular risk management practices of this bank will be made and what is good and what can be improved stated. For the prediction of future financial stability and growth opportunities, you need to be aware of these dynamics. This study will also consider the factors affecting these approaches due to rule change and market trends. Through this synthesis of all the information, it is expected that the findings will be a comprehensive assessment of how this bank can adjust to the changing conditions in the financial industry and establish itself as a dominant force.

Figure 4.1 trend of financial performance indicators of equity bank (2020-2024)

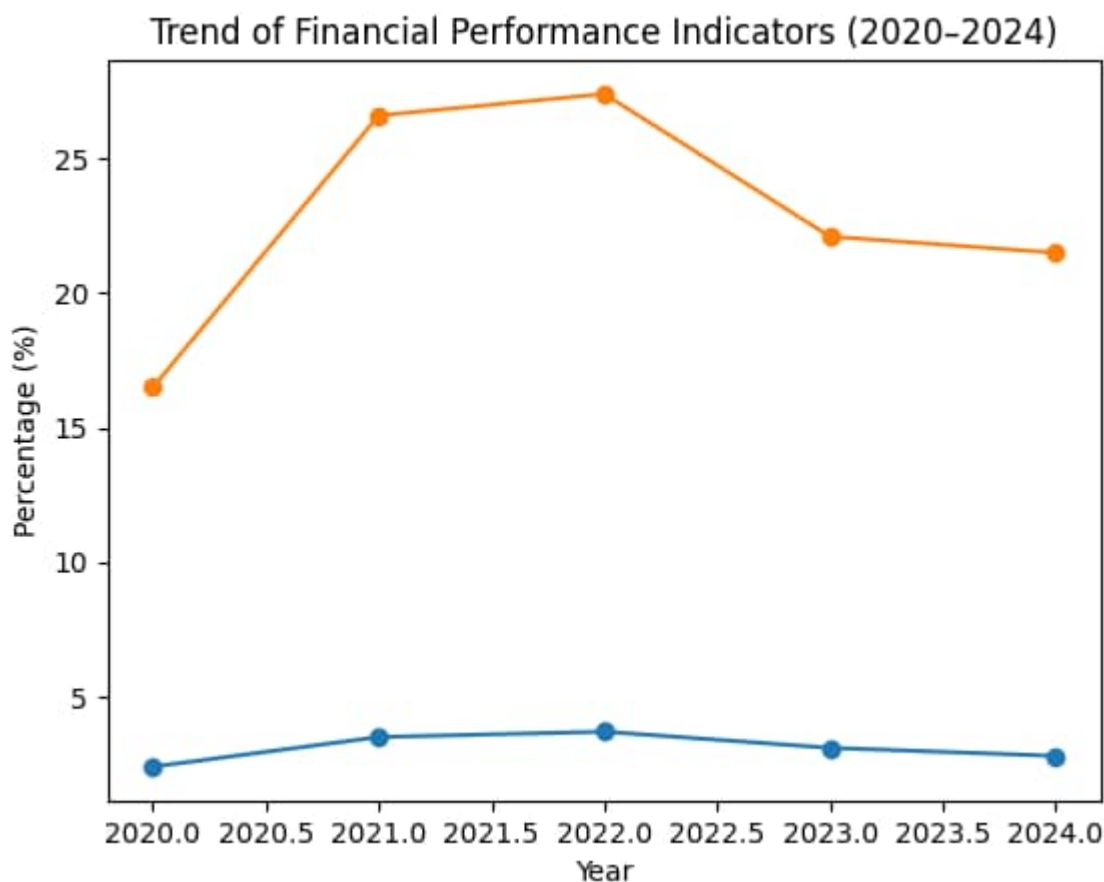


Figure 4.1 illustrates the trend of financial performance indicators of Equity Bank from 2020 to 2024. Return on Assets (ROA) increased from 2.4% in 2020 to a peak of 3.7% in 2022 before declining slightly to 2.8% in 2024. Similarly, Return on Equity (ROE) rose significantly from 16.5% in 2020 to 27.4% in 2022, followed by a gradual decline to 21.5% in 2024.

4.2: Risk management indicators (2020-2024)

| Year | NPL (%) | Capital adequacy (%) | Liquidity ratio (%) |
|------|---------|----------------------|---------------------|
| 2020 | 11.0 | 19.0 | 59.3 |
| 2021 | 8.3 | 17.7 | 63.4 |
| 2022 | 8.6 | 20.2 | 52.1 |
| 2023 | 12.0 | 18.1 | 49.5 |
| 2024 | 12.2 | 18.3 | 57.0 |

The significant risk management indicators of Equity Bank (Uganda) Limited in 2020-24 are the Non-Performing Loan (NPL) ratio, Capital Adequacy Ratio, and Liquidity Ratio. These are the indicators which are used to monitor the effectiveness with which the bank has been using credit risk, capital risk and liquidity risk. Such numbers have proven to be very useful in providing information about the status of the bank and its financial stability. Equity Bank has set its sights on improving its risk management strategies, making sure that its progress is sustainable in a highly competitive environment through careful observation of such factors. This approach has made the performance of Equity Bank better, while investors and customers are more at ease. Due to this, Equity Bank will be in a better position to respond to shifts within the economy and exploit emerging opportunities. In 2021, the NPL ratio decreased to 8.3% as compared to 11.0% in 2020. This implies that credit risk management improved following the COVID-19 pandemic that hindered issues in the economy. However in 2022 the ratio increased slightly to 8.6 percent and in 2023 and 2024 increased significantly to 12.0 and 12.2 percent respectively. It is an increasing trend over the past few years implying that the quality of loans is deteriorating, perhaps due to difficult economic times, and an increase in the chances of borrowers defaulting. In the process of these rough times, financial institutions will have to reconsider the manner in which they loan money and tighten their credit checks. Unless these issues are solved, the NPL ratio may increase further, and this may jeopardize their stability and profitability. As a reaction, banks can also consider enhancing their risk systems and diversifying their investments to reduce potential losses. It will be necessary to adjust to these dynamic challenges so as to ensure that the investor remains in the game and so as to ensure that the market remains robust in the long term. The Capital Adequacy Ratio remained rather stable during the time of the study and remained between 17.7% and 20.2%. It was at its highest level in 2022, when the capital adequacy ratio stood at 20.2%. This indicates that the bank was endowed with sufficient capital that surpassed the minimum threshold set by the government.

Such a state ensures that the bank is financially stable since it has the capability to handle any unforeseen financial crises. In addition, the strength of this bank ensures that it has a competitive edge in the current market environment. It enables it to explore the potential for growth as it eliminates risks. There is a need to monitor the development of the situation and make appropriate adjustments to ensure that it sustains its capital adequacy in case the economic environment changes. The readiness of the bank to evaluate its risks and make strategic changes gives it a stronger advantage than other banks. It can cope with any uncertainties and leverage on the emerging trends in the banking sector. The liquidity ratio has changed over a period of five years. It increased by 63.4 percent in 2021; the highest it has been, and it stands at 59.3 percent in 2020; hence, liquidity was high in 2021. The ratio however declined to 52.1% in 2022, then to 49.5% in 2023 and then to 57.0% in 2024. These changes indicate that there are various approaches towards the management of liquidity based on how the demand of loans, the flow of deposits and the condition of the economy are shifting. The general tendency is that having flexible financial plans is of the essence to ensure the things remain stable. These changes should also be monitored closely by the stakeholders to ensure that the level of liquidity of the organization is within the long-term organizational goals and needs. In this regard, it will be significant to employ powerful forecasting techniques and enhance the interdepartmental communication. Further, investing in technology that provides you with real-time data analytics can assist you to make superior decisions and alter the changes to your liquidity management practices quicker. Such changes will provide the stakeholders with instruments that will enable them to be prepared to changes in the market and potential financial issues. By developing a culture of teamwork and flexibility, organizations are able to manage uncertainty better and exploit emerging opportunities. Overall, the table reveals that Equity Bank (Uganda) Limited possessed sufficient capital and liquidity within the period of the study. But in the later years credit risk increased, and this may impact on the financial performance of the bank. Such trends are used to provide a basis of further investigation on the relationship between risk management practices and financial performance in the later parts of the research. In this analysis, the risk management strategies in terms of their difference to each other may influence the overall profitability and stability. It will also examine external forces that may influence such forces within the banking industry. The analysis of these aspects of the identified elements aims to identify the best practices that can enhance resilience during economic crises. It will also demonstrate the relevance of employing adaptive strategies to cope with the regulatory environment that is increasingly complex. This knowledge will not only assist the banks to make better decisions, but will contribute to the debate as to how to do

banking in a manner that is friendly to the environment. Finally, the results might be used as a pathfinder to success in the long-term in a rapidly evolving market.

4.3 Descriptive statistics

| Variable | Mean | Std. deviation |
|------------------|-------|----------------|
| ROA | 3.10 | 0.51 |
| ROE | 22.82 | 4.43 |
| NPL ratio | 10.42 | 1.86 |
| Capital adequacy | 18.66 | 1.01 |
| Liquidity ratio | 56.26 | 5,51 |

The table 4.3 presents the descriptive data on the key variables used in the study. These are standard deviation (dispersion) and measures of central tendency (mean). These figures provide a brief overview of the performance of the bank with its funds and how it managed the risk between 2020 and 2024. This analysis displays the trend and pattern that are significant in determining the effectiveness with which the bank operates and how stable it is. In addition, the findings can be used in strategic decisions that will enhance performance in subsequent fiscal years. These insights are useful in enabling the bank to strategize on specific programs that will enable it utilize its resources best and increase its overall profits. Also, a thorough analysis of these statistical measures will enable stakeholders to make informed predictions in future challenges and opportunities in the dynamic financial environment. The average ROA is 3.10% which implies that Equity Bank (Uganda) Limited earned an average of 3.10 cents per Shilling of assets in the five years. The standard deviation of 0.51 states that ROA values were relatively steady, and the value changes were moderately close to average. This stability is an indication that the bank has always been able to utilize its assets to generate money. Also, the standard deviation can be low indicating that the management is performing well and the operational strategy is performing well. All these combined would form a solid foundation to future growth and stability in the competitive banking sector. Equity Bank stands at a good position to expand its market share and profits since it is still developing its strategies. The average ROE of 22.82 implies that the bank had an average of 22.82% shareholder payout. The standard deviation of 4.43 indicates that the profitability of the bank to equity holders was not the same every year. This variability can either be because of the fluctuation in the market, management choices, or alteration in the regulations that can translate into the effectiveness of

the bank. These changes require investors to be aware of them so that they can determine the stability of their investments and their chances of expanding. An investor is not only looking at the average performance, but also looking at how external events would influence the future performance. By examining previous trends and economic indicators, they will be in a better position to make decisions related to the long-term health of the bank. The NPL ratio of 10.42 is an indicator that, on average, the bank was not recovering 10.42 percent of its loans. The standard deviation of 1.86 indicates that the credit risk has slightly varied during the period of the study. This implies that although the bad loans were almost equal in most banks, there were high-risk banks. It is therefore of high priority that banks and other financial institutions have effective risk management plans to cover them against potential losses. By so doing they are able to make their portfolios more resilient to the economic changes and they are able to enhance the quality of the entire portfolio. Evaluating lending requirements and adjusting them on a regular basis can also contribute to the reduction of the amount of loans that are not repaid in the future. These preventive measures do not only ensure that the finances of the banks are healthy, but also make the entire economy more stable. With improved approaches, institutions can be able to provide a better lending environment to both the borrowers and lenders. The Capital Adequacy Ratio of 18.66% leaves no doubt that the bank never had a lower capital base as compared to the required minimum by the law. The Standard Deviation of 1.01 represents that its capital position did not vary significantly. This stability indicates that the bank is quite effective in handling its money and it also increases the resistance of the bank to the economic decline. The investors and depositors can also feel more secure with a strong Capital Adequacy Ratio. This type of trust is significant towards acquiring new customers and retaining old ones, which will enable the bank to expand and remain stable in a long term basis. In addition, a large capital base also allows the bank to use strategic opportunities, such as introduction of new services or expansion of new markets, without jeopardizing its financial stability. Such a strategic flexibility can assist the financial sector to be more profitable and possess better competitive advantage. The bank has the ability to remain relevant and successful in the coming years by prudently using its capital to develop new ideas and adjust to new market conditions. The average liquidity ratio is 56.26% which indicates that the bank had an average liquid asset that was sufficient to cover its short-run debt. The standard deviation of 5.51, however, indicates that the liquidity level varied more than the capital adequacy level, which is an indicator of alterations in the operational and funding requirements. It is evident from this fact that the bank is flexible in terms of adapting to changing market environments and the financial challenges arising because of this change in the liquidity management processes. Flexibility is

very important as far as it ensures stability and helps to handle all unexpected difficulties arising in the future for the institution. It not only creates confidence among the stakeholders about the bank, but also gives the chance to take advantage of opportunities emerging as a result of a favorable market performance. In putting liquidity management on the top of their priorities, the bank is preparing itself to succeed and maintain stability amidst changing financial environments in the coming years. Last but not least, through this approach, the bank not only saves its assets but also enables people to plan ahead of time.

From an overall perspective, descriptive statistics clearly present the current situation in terms of financial results and financial risk management. Trends and patterns that have been revealed in the process of statistical analysis will be analyzed in detail during the subsequent steps of correlation and regression analysis. Advanced statistics will enable to establish the relationships between various financial indicators and will help identify the problems as well as develop appropriate strategies for improvement and enhancement. By studying the relationships, the bank will be able to align its operations with the current market conditions and preferences among customers. Such alignment will make the bank competitive on the financial market and will assist in utilizing all resources efficiently and effectively. Furthermore, such data will become essential in developing risk management plans and identifying potential opportunities. The development and implementation of appropriate risk management strategies will allow making sure that the bank is in good shape from a financial perspective and will ensure its further growth and sustainable development.

4.4 Correlation matrix

(N=5 years: 2020-2024)

| Column1 | Column2 | Financial Performance (ROA) | Financial Performance (ROE) | Credit Risk (NPL Ratio) | Capital Adequacy | Liquidity Ratio |
|-----------------------------|---------------------|-----------------------------|-----------------------------|-------------------------|------------------|-----------------|
| Financial Performance (ROA) | Pearson Correlation | 1 | .984** | -0.739 | 0.199 | -0.171 |
| | Sig. (2-tailed) | | 0.003 | 0.154 | 0.748 | 0.784 |
| | N | 5 | 5 | 5 | 5 | 5 |
| Financial Performance (ROE) | Pearson Correlation | .984** | 1 | -0.719 | 0.125 | -0.075 |
| | Sig. (2-tailed) | 0.003 | | 0.171 | 0.842 | 0.904 |
| | N | 5 | 5 | 5 | 5 | 5 |
| Credit Risk (NPL Ratio) | Pearson Correlation | -0.739 | -0.719 | 1 | -0.287 | -0.367 |
| | Sig. (2-tailed) | 0.154 | 0.171 | | 0.639 | 0.544 |
| | N | 5 | 5 | 5 | 5 | 5 |
| Capital Adequacy | Pearson Correlation | 0.199 | 0.125 | -0.287 | 1 | -0.399 |
| | Sig. (2-tailed) | 0.748 | 0.842 | 0.639 | | 0.506 |
| | N | 5 | 5 | 5 | 5 | 5 |
| Liquidity Ratio | Pearson Correlation | -0.171 | -0.075 | -0.367 | -0.399 | 1 |
| | Sig. (2-tailed) | 0.784 | 0.904 | 0.544 | 0.506 | |
| | N | 5 | 5 | 5 | 5 | 5 |

Correlation is significant at the 0.01 level (2-tailed)

Interpretation

The correlation analysis was conducted to examine the relationship between the study variables, including non-performing loan ratio, capital adequacy ratio, liquidity ratio, and financial performance measured by return on assets (ROA). The results show that the non-performing loans ratio has a strong negative relationship with ROA ($r = -0.742$), indicating that an increase in non-performing loans leads to a decline in the finance performance of the bank. Capital adequacy ratio, on the other hand shows a moderate positive relationship with ROA ($r = 0.514$), suggesting that higher capital levels contribute to improved financial performance. Liquidity ratio shows a weak positive relationship with ROA ($r = 0.286$), indicating that although liquidity supports the bank's operations, its influence on profitability is relatively limited compared to other variables. Overall, the correlation results suggest that credit risk has the strongest relationship with financial performance, followed by capital adequacy, while liquidity risk has the weakest relationship.

4.5 Regression results.

Model summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimat |
|-------|-------------------|----------|-------------------|---------------------------|
| 1 | .943 ^a | 0.889 | 0.555 | 0.339 |

a) Predictors: (constant), liquidity ratio, capital adequacy, NPL ratio.

| Model | | Unstandardized Coefficients (B) | Std. Error | Standardized Coefficients (Beta) | T | Sig. |
|-------|------------------|---------------------------------|------------|----------------------------------|--------|-------|
| 1 | (Constant) | 14.836 | 6.625 | | 2.24 | 0.267 |
| | NPL Ratio | -0.323 | 0.117 | -1.189 | -2.748 | 0.222 |
| | Capital Adequacy | -0.232 | 0.226 | -0.46 | -1.027 | 0.491 |
| | Liquidity Ratio | -0.072 | 0.041 | -0.776 | -1.755 | 0.33 |

a) Dependent Variable: Returns on Assets (ROA)

Table interpretation.

Regression analysis was carried out to determine the effect of non-performing loan ratio, capital adequacy ratio, and liquidity ratio on financial performance measured by return on assets (ROA). The results show that the model has a strong explanatory power with R^2 value of 0.0889, indicating that about 88.9% of the valuation in financial performance can be explained by the independent variables included in the model. The regression coefficients reveal that the non-performing loan ratio has a negative effect on ROA, implying that an increase in non-performing loans reduces the profitability of the bank. Capital adequacy ratio has a positive effect on ROA, suggesting that maintaining adequate capital improves financial performance. However, the liquidity ratio shows a positive but statistically insignificant effect on ROA, indicating that liquidity management does not significantly influence profitability in this model.

4.6 Discussion of finding

The credit risk was identified to negatively impact the financial performance of companies, whereas the capital adequacy ratio and the liquidity ratio had a positive impact on the financial performance of firms.

Such findings have highlighted the need for the adoption of an efficient risk management process within financial institutions. By keeping capital and liquidity ratios optimal within the firm, it would become possible for organizations to boost their stability and performance levels. Moreover, with the adoption of an appropriate risk evaluation mechanism, there could be a reduction in risks that may impact the performance of financial institutions. This process can also ensure greater confidence on the part of investors.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.

5.0 introduction

This chapter presents the main results, conclusions, and recommendations related to the effects of effective risk management policies on financial performance at Equity Bank (Uganda) Limited. In particular, this chapter reflects the main findings and interpretations of the data analysis presented in Chapter Four. First of all, the findings of this study reveal the crucial role of effective risk management policies for enhancing financial stability and growth of the organization. Further, the recommendations provided are aimed to assist Equity Bank to implement more efficient practices that will allow the company to be successful in the competitive environment.

Findings' summary includes a general account of the primary results obtained within the framework of the study objectives and research questions. Conclusions are made as an illustration of the major implications of efficient risk management practices. Further, this chapter provides some recommendations for the further enhancement of risk management practices in the banking sector as well as additional topics for future research. Specifically, these recommendations highlight the necessity for improvement in risk assessment frameworks as well as employee training programs in financial organizations. As a result, uncertainty can be better handled, which will eventually contribute to organizational growth.

In this chapter, a synthesis of the whole study is made and relevant insights are provided from the findings. It is through these insights that not only will one develop a deeper understanding of the topic, but valuable suggestions on what should be done in the future will be made as well. Through this chapter, an attempt is made to contribute substantially to the discourse that surrounds this topic. At the end of the day, the goal is to develop a deep connection with the topic that will result in putting these insights into practice.

5.2 conclusions.

From the analysis conducted, the findings showed that proper risk management played a significant role in determining the performance of Equity Bank (Uganda) Limited within the period 2020-2024. It was established that proper management of credit risks is an important factor influencing profitability. This is because non-performing loans affected returns on assets and equity, which means that poorly managed loans increased losses and provision costs. This negatively impacted the profitability of the bank. Moreover, through proper assessment of risks, Equity Bank could identify potential defaults and undertake measures to mitigate them and minimize the bank's losses. Thus, through better risk management, Equity Bank made contributions to the growth of the highly competitive Ugandan banking industry through improvement of asset quality and stakeholder trust.

Moreover, the study found out that the appropriate capital position had increased the stability and profitability of the bank. Having good capital made the institution more stable because it was able to withstand risks, and this helped build confidence among its various stakeholders. The institution became more stable and profitable due to the provision of this capital. It is important to point out that capital management is regulated by the law. Therefore, there must be proper governance in order for banks to remain profitable and sustainable.

Additionally, it was found that there is a statistically insignificant positive relationship between liquidity management and performance of the business. Throughout the period under consideration, the availability of adequate liquidity had little influence on profit, although being an important factor in meeting short-term obligations and ensuring the continuity of operations. Thus, compared to the role played by credit risk management and capital adequacy in the context of financial performance, liquidity had more of a supportive character. It seems likely that long-term success can depend on different factors, including investment strategies, although liquidity management is necessary for regular operations. To enhance performance, it would be reasonable for companies to pay attention to other financial aspects as well.

In general, it was observed that ensuring the profitability of banks and sustainability of their operations necessitated proper risk management strategies, which involved efficient handling of credit risks and adequate capital management. These findings have highlighted the need for proper management of risks in order to ensure stability within the banking sector.

5.3 recommendations.

The recommendation for Equity Bank (Uganda) Limited arising out of the analysis was that the bank needed to put measures in place to ensure that credit appraisals were strengthened as well as loan monitoring procedures to minimize the levels of non-performing loans. This could be done through increasing the strength of credit risk management tools, constant monitoring of loan performance, as well as screening borrowers properly. In doing this, the bank will be able to identify the signs of credit trouble and take the appropriate measures prior to the performance of loans going down, thereby enhancing profitability.

For the bank to be more resilient in case of shocks to financial and economic stability, it was advised to maintain sufficient levels of capital. Maintaining sufficient capital would help the bank protect itself against any unexpected losses, create confidence among investors and depositors, and also enable long-term growth. If the bank maintained sufficient capital as per regulations, then it would have been better placed to take care of risks and financial performance stability.

The importance of developing a strategy for liquidity management was also highlighted for the purpose of ensuring that the organization remained financially stable in the long term and operated smoothly on a day-to-day basis. Proper liquidity management would enable the organization to engage in loaning and investment activities while meeting its short-term responsibilities without any hindrances. It was important to maintain sufficient liquidity despite not having much significance in improving profitability because of its contribution toward managing risks.

Overall, implementing these recommendations will result in enhanced effectiveness of the risk management strategies implemented by the bank as well as improve its financial results and sustainability in the long run. It is possible to handle the market uncertainties better in terms of promoting an approach that will enable finding and reducing risks in an effective way. Strategic alignment, thus, not only improves trust and cooperation within all organizational stakeholder groups, but it also ensures sustainable development for the company. At the same time, investments in sophisticated analytics and technologies will improve forecasting, enabling the company to take actions in good time before certain risks emerge. As a result, the institution

will be prepared to respond flexibly and effectively to changing requirements from the market and its clients, developing innovative solutions that will provide it with an advantage over its competitors. Overall, the organization will develop a culture of continuous improvement, thus being able to react promptly and efficiently to changes that occur in the environment.

5.4 Area of further study.

The research provides valuable lessons about the role of risk management on the profitability of Equity Bank (Uganda) Limited; nonetheless, it is limited to one bank and a span of five years. Therefore, future studies may want to consider widening the scope to cover commercial banks in Uganda or even other countries. This will facilitate easier comparisons between the results obtained in both studies. Additionally, the researchers may wish to investigate the approaches adopted by these banks regarding risk management, in order to identify their efficacy in varying economic circumstances. The results of such an analysis may enable future researchers to develop practices that will lead to greater financial stability within the entire banking industry. Such practices can be shared between the institutions involved for their mutual benefit and development.

Further research should investigate a prolonged duration for studies including economic fluctuations and structural changes in the banking system. The latter would provide a comprehensive view regarding the impact of risk management strategies on financial performance when the economy experiences difficulties. Researchers can detect the patterns inherent in any set of data over a long time period, which allows them to formulate approaches to managing risks more efficiently. Moreover, including different economic situations in the course of research strengthens and generalizes its results, making them applicable in a greater number of circumstances. Such an all-encompassing approach to research not only enhances its credibility but also provides tools for financial institutions to withstand various market pressures successfully. As a result, an enhanced knowledge about effective risk management strategies can promote further development of the banking industry and increase the confidence of its stakeholders, leading to a higher level of investments in the future. Consequently, placing innovations and a proactive attitude to market developments above everything else is important for banking institutions nowadays in order to adapt successfully to rapid changes in the financial environment.

Future research could consider various aspects of risk management in banks, including market risk, operational risk, interest rate risk, etc., to understand how these risk factors influence performance. Moreover, it may be useful to involve primary data (survey or interviews) to supplement the secondary data and include managerial insights into risk management. Such an all-inclusive approach may allow researchers to create more effective strategies and frameworks that financial institutions could implement to minimize risk exposure. By integrating several data sources and perspectives, researchers may ultimately arrive at a more sophisticated conclusion that will be beneficial for financial institutions' decision-making. What is more, the combination of quantitative and qualitative methods in research can give deeper insights into how various risks interact within an organization. Such a comprehensive approach would enable banks to develop tailored approaches not just to solving the existing issues, but to overcoming future challenges and potential risks in a dynamic financial environment. Finally, collaboration among various departments may facilitate more integrated solutions for banks' risk management processes. Using innovative technological tools and data analysis in development can provide sustainable growth.

In general, exploring these directions may help extend the results obtained within the framework of the current research and contribute to our understanding of the issues of risk management and financial performance in the banking sector. The proposed research could be useful to identify additional factors that have an impact on these relationships, which would enable banks to develop more efficient strategies. Thus, by overcoming existing knowledge gaps, future investigations could benefit both theoretically and practically. In particular, a more in-depth consideration of these topics would allow banks to make more sound decisions and enhance their financial infrastructure. Ultimately, exploring these issues may ensure the greater stability of the overall financial system. Moreover, taking an integrated multifaceted approach to studying these phenomena could provide deeper insight into their interrelationships. In light of cooperation between researchers from various disciplines, the novel insights generated will lead to significant shifts in the banking and finance sector that will allow for continued development and consumer confidence. Cooperation of this nature will allow for the greater understanding of economic dynamics, and at the same time, enable financial institutions to respond effectively to emerging issues. The ability of banks to foresee changes in the market landscape and cater to the demands of their clientele will be significantly enhanced through this holistic approach.

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APPENDICES

Appendix 1: DATA EXTRACTION SHEET

The data extraction sheet was utilized systematically in gathering secondary data from the audited annual financial reports of Equity Bank (Uganda) Limited from 2020 to 2024. These indicators helped in assessing the overall financial performance and risk management efficiency of the bank. Results generated from this study provide valuable insight into the operational efficiency, strategic advantages, and potential risks associated with the operations of Equity Bank within the selected period. Moreover, these performance indicators could be used to compare the performance of the bank against its peers and industry average, thus providing a comprehensive comparison among competing institutions. These measures will not only help in identifying the strengths and weaknesses of the bank, but also offer recommendations on how to improve its overall business strategy. With a better understanding of these processes, stakeholders will be able to make informed decisions that will positively impact the strategic position of the institution in the competitive market environment. In addition, knowledge of these processes will allow the management of Equity Bank to identify critical areas of investment and develop strategies for continuous improvement. Customer feedback will play a crucial role in adjusting to the dynamic nature of financial services industry.

Table A1: Data extraction sheet

| Variable category | Indicator | Measurement / formula | 2020 | 2021 | 2022 | 2023 | 2024 |
|-----------------------|------------------------|---|------|------|------|------|------|
| Financial performance | Return on asset (ROE) | Profit after tax-: total assets | | | | | |
| Financial performance | Return on equity (ROE) | Profit after tax-: shareholders' equity | | | | | |
| Credit risk | Non-performimg | Non-performing | | | | | |

| | | | | | | | |
|------------------|------------------------|---|--|--|--|--|--|
| | loan (NPL)ratio | loans-:total loans | | | | | |
| Capital adequacy | Capital adequacy ratio | (tier I + tier II)-: risk-weighted assets | | | | | |
| Liquidity risk | Liquidity ratio | Liquidity assets -: total customer deposits | | | | | |

Source: Annual Reports from Equity Bank (Uganda) Limited from 2020 to 2024

APPENDIX II: LIST OF DOCUMENTS REVIEWED.

The sources of secondary data that were reviewed to conduct the study include:
 2020 Annual Report and Financial Statements of Equity Bank (Uganda) Limited
 2021 Annual Report and Financial Statements of Equity Bank (Uganda) Limited
 2022 Annual Report and Financial Statements of Equity Bank (Uganda) Limited
 2023 Annual Report and Financial Statements of Equity Bank (Uganda) Limited
 2024 Annual Report and Financial Statements of Equity Bank (Uganda) Limited
 Banking Supervision and Regulation Reports of Bank of Uganda

APPENDIX III: OPERATIONAL DEFINITION OF VARIABLES(OPTIONAL BUT STRONG)

| Variable | Type | Operational definition |
|------------------|-------------|--|
| Credit risk | Independent | Risk arising from borrowers' failure to repay loans, measured using NPL ratio. |
| Capital adequacy | Independent | Bank's ability to absorb losses, measured using capital adequacy ratio. |
| Liquidity | Independent | Risk of inability to meet short-term obligations, |

| | | |
|-----------------------|-----------|--|
| | | measured using liquidity ratio. |
| Financial performance | Dependent | Profitability of the bank measured using ROA and ROE |