

**THE EFFECTS OF FINANCIAL RISKS MANAGEMENT ON FINANCIAL
PERFORMANCE OF COMMERCIAL BANKS IN UGANDA: A CASE STUDY OF
EQUITY BANK UGANDA LIRA BRANCH**

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

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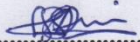


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DECLARATION

This research project is my original work and has not been presented for examination in any other University,

Signature..........Date.....17th SEPTEMBER, 2024

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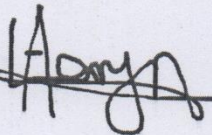
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APPROVAL

I hereby certify that this academic research was conducted under my supervision as the academic supervisor, and has been reviewed and approved.

NAME: Ms. Akinyi Lorraine

SIGNATURE: 

DATE: 09/09/2024

DEDICATION

This project is dedicated to my family, specifically my dad, Okello Geoffrey Bongo, who provided financial support throughout my education journey and the rest of the family for the love and encouragement.

ACKNOWLEDGEMENT

I am grateful to the following persons who have made substantial contribution towards the completion of my dissertation: my supervisor, Madam Lorine Akinyi, for the enormous direction, assistance, as well as expertise all through the research process. My family, my father Okello Geoffrey Bongo, my mother Caroline Akullu, my sisters and brothers for their unwavering love, encouragement, and sacrifices during this time, my friends, the participants and to the respondents who took the time and shared their experiences which made this research possible, and Uganda Christian University for providing an enabling, motivating, and conducive atmosphere that inspired me.

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ABSTRACT

This study is set out towards assessing the impact of financial risks on the financial performance of Ugandan commercial banks using the Equity Lira branch as a case study. These objectives are specific and come out to inaugurate the effect of credit risk, operation risk and market risk on the financial performance of commercial banks. Descriptive research design was used in the study. It incorporated primary and secondary data. Data was got from 31 Equity Bank staff through the use of a standardized questionnaire. The staff were selected from the population of 31. It measured the impact of credit, market, and operational risk on commercial banks' financial performance. The results of the studies showed existence of a significant relationship between credit risk management and the financial performance of the bank. The data similarly revealed existence of significant statistical link between liquidity risk and financial performance of the bank. In light of this, it is appropriate with respect to these conclusions to infer from this study that credit risk and market risk may detract from the financial success.

Since awareness of such risks improves financial performance, commercial banks should be well-established regarding the structure of risk control. This will boost the banks' financial performance. To improve credit risk management, solid frameworks must be established financial performance. The bank's management should also prioritize addressing its market concerns. This is because market risk management improves financial performance.

CHAPTER ONE

1.0 Introduction

This chapter provides the initial part of the research project. It contained the background , problem statement, purpose, aims, research questions, scope, significance, conceptual framework, and expected limitations.

1.1 Background of the study

Risk management is a fantastic notion in business. This is because it helps to reduce prospective losses by recognizing, evaluating, assessing, and regulating them, which can then be avoided or eliminated (Epetimehin & Obafemi, 2015).

In the banking business, the hazards that financial banks are troubled with are referred to as financial risks, and financial risk management is a technique used by financial institutions to control these risks. Financial risk management entails analyzing and comprehending the type of risk that the organization is experiencing, as well as developing appropriate methods to address them while taking into account the institution's internal priorities and policies. The financial risks evaluated in this study were market, credit, operational, and market risks.

When a financial organization lends credit to a client and the client fails to repay it, it creates credit risk. (Cechetti & Schoenholtz, 2011). Thus, credit risk is basically about inability of the borrower to return the credit. When a financial institution carries out business without taking business ethics into consideration, it suffers from the operational risk (Epetimehin & Obafemi, 2015). On the other hand, financial performance of the financial institution is related to its ability to carry out its plans and significant decisions so as to accomplish its goals, objectives and attain high returns (Sathyamoorthi, Mapharing, Mphoeng, & Dzimiri, 2020). This section presents the historical, theoretical, conceptual and contextual background of this study.

Commercial banks and other financial institutions have for long sought improved operational strategies to boost their financial performance and increase profitability and attain competitive advantage (Kipkirui&Omagwa, 2018). Indeed, Myers and Brealey (2013) opined that such institutions adopt and always modify their financial management practices to attain effectiveness. Institutions develop financial management practices to not only recover their principal amount but also generate profits on their risk taken while lending (Dimelis, Giotopoulos, &Louri, 2013). Effective management of the financial portfolio and the credit

function is fundamental to the bank's safety and soundness not only because financial portfolio constitutes the largest asset and main source of revenue but also because it is the main cause of bank losses and failures (Bhat, Tariq and Ahmed, 2020).

Globally, Commercial banks confront a variety of risks that can be divided into three categories: financial (including credit risk), operational, and strategic (Cornett & Saunders, 2012). These hazards have varying effects on the financial performance of commercial banks. The quantity and intensity of loss created by the risk when compared to others are significant enough to cause bank failure. This represents a significant amount of credit risk, accounting for 10-15 times a bank's equity. As a result, when loan quality deteriorates little, the banking industry is likely to suffer. Deprived financial eminence comes from the information processing mechanism. This is according to Mwangi & Muturi, 2016.

In the Sub-Saharan region, the financial performance in banks has been threatened by increasing credit risks in financial institutions in Africa from the earlier. This is according to Jean-Philippe, 2016.

Similar, financial risk management has gained a lot of attention in recent years, particularly in the wake of tragic occurrences and bank collapses brought on by an increase in nonperforming credit (Bodo, 2018).

According to a similar study, by 2017 23% of credits in Ghana, and Angola's banking sectors were deemed non-performing, up from 17% in 2015 (NSobilla, 2015).

Since 2009, NPLs have been identified as the main factor in bank failures in Kenya (Nasieku, 2014).

The Portfolio at Risk (PAR) of Kenyan banks has risen from 12.7% in 2019 to 13.1% in 2020 as of poor financial risk management during the COVID-19 period (Central Bank of Kenya, 2020).

Non-performing loans increase the banks' portfolio of risky assets, consequently diminishing financial performance. Very shockingly, the collapse of some Ugandan banks, including the Greenland Bank in 1998, was partly because of poor financial risk management and particularly failure to adhere to guidelines on lending. At the time of collapse, Greenland Bank's loan portfolio was deemed non-performing. Other banks have equally run into that problem resulting from increased loan defaults. For example, Crane Bank, which took over the assets of National Bank of Commerce in 2012, distorted in 2016, because of great surge of NPLs.

Commercial banks play an important economic role in Uganda through saving mobilization and financial intermediation services (Franklin & Elena, 2012). Major commercial banks in Uganda are highly concentrated at their headquarters and branches in Kampala, such as Centenary Bank, Stanbic Bank, and Absa Bank, among others (Kansiime et al., 2020). The various kinds of banks serve different markets, both rural, urban, and peri-urban customers in Central Uganda. However, their wide customer base exposes them to significant financial risks, especially if credit risk is not well managed, resulting in increased defaults and nonperforming loans, that in turn determine the negative effect on financial performance (Agaba, 2022).

Transactions that gives risk of bad debt are most times done by commercial banks . The information asymmetry between banks and their customers heightens this risk, generally eventuating in loan defaults and bad financial performances (Selene, 2017). As a shield against financial Performance, banks have to come up with efficient ways of controlling credit risk within acceptable limits as losses on loans reduce profitability. According to Ssekiziyivu et al., 2017; Serwadda, 2018, over the years, many banks have suffered increased defaults, starting to get worse during this COVID-19 pandemic year of 2020/2021. According to the Bank of Uganda's report for 2019/2020, financial performance contracted significantly in the financial year that ended June 2020, partly, due to economic disruptions caused by the pandemic. This increased the ratio of non-performing loans and advances to gross loans from 3.8% in 2019 to 6.0% in 2020 (BoU, 2020). More recent data from the Bank of Uganda is not available, but different media reports have continued to point to the swelling volume of bad debts and nonperforming loans, many of which had been restructured, leading to poor financial performance (Kasemiire, 2021; URN, 2020).

1.2 Statement of the problem

Even with the implementation of various financial management risks strategies, including risk identification, analysis, evaluation, and monitoring, the banking sector in Uganda still portrays poor loan performance. This has been manifested in increased non-performing loans that lead to an increased collection at risk and bad debts written off. This thesis, therefore, attempts a

detailed exploration of the BOU management reports from 2014 to 2020. This shows that the asset eminence of the financial banks, as reflected by the Loan Portfolio at Risk-(NPL ratio), increased from 4.7% in December 2019 to 6.0% in 2020. The deteriorating loan quality was one of the contributing factors towards the collapse of major banks such as Crane Bank, whose NPLs surged by a whopping 122.9% between the years 2014 and 2015 (Senyonyi, 2017). The purpose of this study is to determine the impact of financial risk management on the financial performance of commercial banks in Uganda: Case Study of Equity Bank's Lira Branch

1.3 Purpose of the study

The study sought to determine the effects of financial risk management on the financial performance of Ugandan commercial banks, with a focus on Equity Bank.

1.4 Specific objectives

1. To establish the effects of credit risk on financial performance of Equity Bank.
2. To establish the effects of operation risk on financial performance of Equity Bank.
3. To establish the effects of market risks on the financial performance of equity Bank.

1.5 Research questions

1. What are the effects of credit risk on financial performance of Equity Bank?
2. What are the effects of operation risk on financial performance of Equity Bank?
3. What are the effects of market risks on the financial performance of equity Bank?

1.6 Scope of the study

The research will now explain the scope, which included three significant factors, namely coverage by area, temporal and content, which are Outlined below.

1.6.1 Content scope

The study aimed to access the role played by risk management practices on financial success of commercial banks, and especially how credit risk operational risk, and market risk on financial performance.

1.6.2 Area scope

The study was carried out at Equity Bank's Lira Branch for convenience and proximity to the location of the researcher.

1.6.3 Time scope

This study was conducted in five-year time from 2019 to 2023, as this would be a period that would yield up-to-date information on the effect of financial risk management on the bank's financial performance.

1.7 Justification of the Study

Scholarly materials reviewed evidenced that very limited studies have existed on the effects of financial risk management on the financial performance of commercial banks, especially in Uganda. For instance, Mutangili, 2011 studied NPLs and macro-financial weaknesses in advanced economies and established that a sudden surge in NPLs can significantly worsen the state of macroeconomic performance. On the same subject, Bessis, 2012 studied financial risk management practices in Kenyan banks, while Korir (2012) did a study on the influence of credit risk management on the financial performance of deposit-taking microfinance institutions in Kenya. However, no one of these studies has singularly addressed the subject of how financial risk management impacts loan performance in Ugandan commercial banks, such as Equity Bank. This research study, therefore, endeavors to bridge this gap in knowledge. The completed study will be useful in that it will provide information which stakeholders have been in need of; especially to the owners and top management of Equity Bank concerning ways to better embed financial risk management into their operations to effectively manage non-performing loans.

1.8 Conceptual Framework.

A conceptual framework is a hypothetical model that gives a underpinning for thoughtful, analyzing, and interpreting a particular phenomenon .

It defines major thoughts, variables, connections, and suppositions on which the study or investigation of a topic within a particular field of studies is based.

In academic research, a conceptual framework serves as a guide, helping researchers organize their ideas, identify important factors, and formulate hypotheses or research questions. It

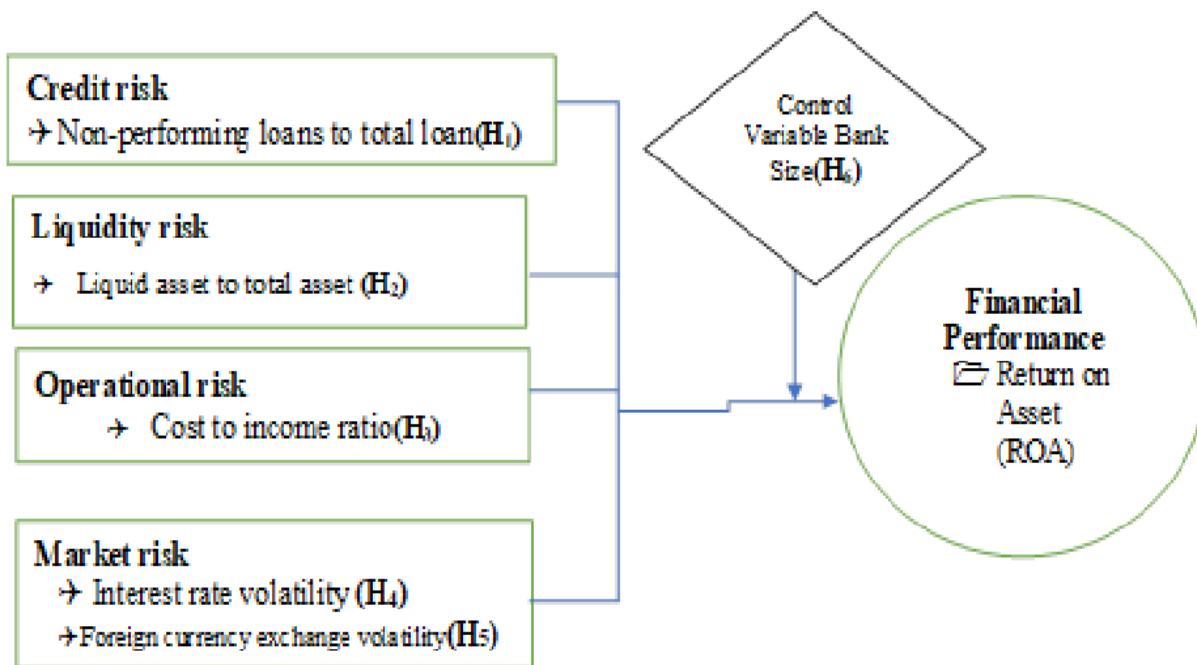
provides a structure for understanding the theoretical basis of the examination and interpreting its findings (Ed.), *Encyclopedia of Concepts* (pp. 123-145). Publisher.

Thus, a conceptual framework represents an overarching system of related perspectives and boundaries that define the core platform and scope of the research questions. The investigation was directed by a conceptual framework, as illustrated in figure 1 below.

Fig 1. The conceptual framework on the risks management and its effects on financial performance

Figure 1

Conceptual Framework



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Source: *Researcher's conceptualization, 2023*

1.9 Significance of the study

The research gave helpful evidence to commercial banks in identifying how the practices of financial risk management are beneficial in enhancing financial performance.

It also provided recommendations to banks on specific strategies of risk management that can be utilized to enhance financial performance.

To the policymakers, especially the Central Bank of Uganda, it served as a guide while formulating proper policies to oversee commercial banks in adopting adequate financial risk management practices that enhance performance.

The study was also a contribution to the academic fraternity through the prevailing information regarding financial risk management and the financial performance of the commercial banks, thus serving as a useful reference for future research.

The study has also enriched the researcher in accomplishing all the academic requirements to complete her course for graduation since research is an essential factor for students in the School of Business.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter assesses related literature on risk management strategies and their effects concerning financial performances of banks by scholarly authors in the field. It specifically considered how operational risks, credit risks, and market risks impact on financial performances of commercial banks in Uganda, a case study of Equity Bank Lira branch.

2.2 Overview of risk management in commercial banks in Uganda.

Outline of Risk Management in Commercial Banks of Uganda Commercial banks in Uganda have encountered a variety of financial problems and implemented a variety of risk-mitigation techniques. Muwonge (2012) defined risk management as "the procedure aimed at eliminating, mitigating, and controlling risks to achieve benefits and avoid detriments from speculative exposure." The goal of risk management is to avoid future losses for financial organizations. Commercial banks in Uganda have implemented several risk management approaches to mitigate and manage financial risks, such as GAP analysis, value at risk, training, and effective communication, among others. Kasekende, 2010. GAP analysis is one of the most extensively used risk management approaches in financial institutions to mitigate interest rate risk, and it Based on the balanced sheet of the bank.

The duration model is used in the GAP analysis to measure interest rate risk and manage net interest income by taking into account all cash inflows and outflows (Barclays Bank, 2011). Another risk management tool used by commercial banks in Uganda to mitigate financial risks is Value at Risk (VAR), which summarizes the financial risk inherent in portfolios into a simple number and shows how much a commercial bank is likely to lose. Muwonge(2007)

Commercial banks have also used financial derivatives to mitigate the financial risks they face. A derivative is an instrument whose value is derived from another's value. Kimani. 2011. Swaps and future options are among the most commonly utilized types of derivatives, primarily for the purpose of decreasing foreign exchange and market risk. To do this, they tend to stabilize

and standardize the markets according to the defined circumstances (Muwanga, 2007). Banks also employ risk adjusted rate of return (RAROC), which incorporates agreements between parties to trade a set of cash flows to estimate capital requirements for market risk, credit risk, and operational risk (Equity Bank Uganda Limited, 2017).

Internal control strategies involve intermittent internal audits of various processes and come up with steady liberated reports and assessments to realize the area of 23-weakness. The other most significant issue on internal control is ensuring that a separation is created in responsibilities of the ones who ration, observe, and device risks. This has been employed in curbing the financial risks such as operation risks. Commercial banks in Uganda have also employed Securitization procedure to curb the financial risks such as credit risk. This strategy raises the new funds for the bank and reduces the bank's exposures to risks. According to Bank of Uganda report, different techniques such as pooling a group of income-earning assets such as mortgages and sells securities against these in the open market were adopted by commercial banks hence transforming illiquid assets into tradable asset-backed securities (Bank of Uganda, 2019). This way, the bank is able to distribute its credit exposure and reduce the necessity of monitoring the payment stream of each asset and so hedging against credit risk and liquidity risk (Bank of Uganda, 2019). In Muwonge, 2012, Securitization can be used to manage interest rate risk since the bank will be in a position to match the maturity of the assets with that. It ensures diversification of the liabilities by investing in a range of available securities.

2.3 Overview of Financial Performance of Commercial Banks in Uganda.

Financial performance refers to the ability of the commercial bank to leverage operational and investment decisions and strategies to achieve a company's financial stability. Ahmed & Nauman. 2012. It is a measure of a bank's success in meeting its financial goals, which are governed by financial objectives and benchmarks. Commercial banks' financial performance is measured in terms of profitability, which is typically expressed in ratios. Return on 24 Assets (ROA), Return on Equity (ROE), net profits compared to the firm's total assets or net profits relative to the shareholders' cash, and Return on Assets (ROA) ratios are used to measure

performance. Return on Assets demonstrates how well the bank's resources may be employed to improve profitability, and a greater ROA implies an efficient use of the bank's resources, maximizing shareholder profit (Muwonge 2012). The most commonly used financial ratios are return on equity and return on assets.

Performance of commercial banks. A successful financial performance of the bank is indicated by a return on equity of between 15% and 30%, while the return on assets is at least 1% (Ongore and Kusa, 2013). Uganda's commercial banking sector has expanded dramatically, with over 27 banks operating in the country. Uganda's commercial banking industry is broad, including both local private and foreign commercial banks. Uganda's banking system has made steady improvement over time. In 2003, there were 14 commercial banks with a total asset base of UGX 5,116 billion, indicating an average of UGX370 billion per licensed bank. By the end of 2019, the sector's total assets had increased to UGX. 33,380 billion, According to Ahumuza (2020), regulated banks' total assets reached UGX. 1,280 billion, marking a 251% increase over the previous 16 years. The performance of Uganda's commercial banks has grown slowly over the last two years, according to Bank of Uganda (2021). Commercial banks in Uganda's profitability improved by a slight 6.4% to UGX 855 billion, but the value of non-performing loans remained largely stable throughout the calendar year ended December 2020, according to Bank of Uganda.

2.4 Credit risk and financial performance of commercial banks

Kromschroder & Luck 2008 emphasized that appreciation of credit risk is significant in creating an effective risk mitigation. To effectively manage credit risks, banks must first identify the risks they are exposed to. A suitable credit risk management setting, established under the guidance of the board of directors is deemed necessary for identifying the upcoming risks as well as for the periodic re-assessment of significant credit risk policies.

Credit risk identification is one of the initial steps of the risk management process (Kleindorfer & Saad, 2005) and directs to the timely identification of relevant risks in support of making credit. A holistic approach is suggested for the classification of sources of credit risks (Buhman et al., 2005). Craighead et al. (2007) identified that firms must try to predict disruptions long in advance so that necessary measures can be taken to ascertain and reduce the risk in time. Mazumder and Ahmad (2010) opined that greed and over-indulgence in unwarranted risks are

always present and inherent dangers to the financial market and have resulted in defaults, especially economic bubbles. Credit risk management performance depends on the quality of risk identification activities (Berg, Knudsen, & Norman, 2008).

Risk management has been addressed as an essential component of banks' activities (Gakure et al., 2012). The identification process must be thorough and robust so that all the related risks can be identified. Kattel (2015) found that Nepalese banks used interview technique very often for risk identification in 66.1% of whereas 68.2% utilized SWOT analysis techniques, thus showing the scope of techniques applied in the identification process.

In Kenya, for instance, Kalui and Kiawa 2015 investigated practices of credit risk management in micro finance organizations, and identified that most of them focus on risk identification, monitoring and analysis; however such practice may not be applicable to commercial banks because such Micro-finance organizations target different sets of clientele. According to Essendi 2013 in SACCOs, risk identification was the most significant and had a positive correlation with profitability.

Wambugu, 2010 indicated that proper identification of credit risk, enabled the organisations to mitigate the risks, and hence maximize profits. However, since studies on credit risk in SACCOs may not be entirely relevant to commercial banks.

In this case, allow banks to identify mistakes early, while Gakure et al., 2012 resulted in the calls for more research on correlation for the link between the identification of credit risks and performance to be verified.

2.5 Operational Risk and Financial Performance

As stressed by Kleindorfer, operational risk is one of the critical factors in conducting analysis of financial institutions' performance (Saad, 2005). Hence, a more voluminous study covering 135 banks in 14 countries from 2015 to 2019 concluded that

Operational risk, especially in the MENA region, impinges negatively on financial performance. It thus recommends that "banks should develop more sophisticated risk management processes to deal with operation risks" easily.

Effective operational risk management can improve financial performance, as highlighted by various studies that link operational risk to financial measures like ROI (Buhman et al., 2005).

2.6 Market Risks and Financial Performance

Market risk involves all risks emanating from the volatility of price, securities, currency, and other financial instruments. According to Kromschroder & Luck 2008, alterations in market conditions may make price and exchange rate volatility hurt banks' bottom line.

The model also indicates that market risks are significant factors in the determination of profitability in banks, particularly in emerging markets, Ghosh 2017; Muriithi et al. 2016.

Financial leverage plays a role in how banks manage market risks, with varying findings regarding its relationship with financial performance. While some studies show a negative impact of financial leverage on performance, others find a positive correlation, indicating a complex interplay of factors.

2.7 Summary and Research Gaps

Literature highlights that financial risk management is cardinal to commercial banks, and concerns managing credit, market, and operational risks, which have an appreciable effects of financial performance. Despite this, few studies have been specifically conducted on loan performance, especially in Uganda, due to the limited research compared to other countries like Kenya and Nigeria. Most of the existing literature focuses on microfinance institutions and SACCOs whose risk management approaches may differ from that of commercial banks. Most of the studies that have been conducted have used descriptive analysis which may not show comprehensively the relationships that exist between variables. Consequently, this study was conducted to find solutions of the problems of past literature by conducting an investigation on credit risk, operational risk and market risk of Banks in Uganda.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This section describes in full the research approach, protocols, and data gathering modalities. It includes information about the research strategy, study area, population, and sampling. Procedures, sample size, data collection methods, data processing, data analysis methodologies, quality control, dependability, expected constraints, and ethics.

3.1 Research Design

The study used a cross-sectional survey research design to capture data from the respondents only once at a given time from the representative population (Patrik & Ugo, 2019). Under this design, the researcher was able to collect data from a wide scope of subjects and to compare differences across groups. It further allowed the exploration of the various relationships among the variables under study. The cross-sectional design was especially apt in studying the the link between credit risk management and loan performance in commercial banks in Uganda.

This research employed a mixed-methods approach, both quantitative and qualitative research techniques. Quantitatively, the study used questionnaires administered to selected bank tellers at Equity Bank, while qualitatively, it involved interviews with key informants from top management of Equity Bank, including the executive board, credit manager, and risk manager. This approach was necessary to gain an in-depth understanding of issue at hand, drawing on respective knowledge from the informants. The quantitative approaches had aimed at the level of understanding related to credit risk management and its impact on financial performance in banks.

3.2 Study area

It was carried out at Equity Bank, Plot 5/7, Soroti Road, Obote Avenue, P.O. Box 10184, Lira, Uganda. The bank is among the top-ranking commercial banks in Uganda that has been

affected by high levels of nonperforming loans that could adversely affect its performance as a financial institution.

3.3 Study population

According to the Equity Bank Annual Report (2022), the bank employs 1,474 staff across various branches nationwide. For this study, the focus was on the bank tellers in the credit department at the main office, totaling 50 employees. Additionally, the study population included the credit manager, risk manager, and executive board members, amounting to 8 individuals, who were considered key informants for the research.

3.4 Sample determination

A sample is a subset of the greater population that takes part in the survey Stuart, 2016. Creswell (2012) defines a sample as a segment that represents the desired population and allows for generalized findings. The sample size is calculated using Slovin's 1960 formula, as shown below.

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

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

"N"(population)

= 50 employees of DFCU Bank

$$n = \frac{50}{1 + 50(0.05)^2}$$

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

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

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

n = 44 credit officers in the credit department at the main offices

Therefore, the sample size is 44 credit officers in the credit department at the main offices of Equity bank. More so, the study also includes a sample of 8 key informants who are; the credit manager, risk manager and executive board all from the main offices of Equity Bank in Kampala.

3.5 Sampling methods

Both purposive and simple random samplings are employed by the researcher. Key informants consisted of credit manager, risk manager, and executive board from the main offices of Equity Bank, which were purposively sampled to the number of 8. The reason why purposive sampling has been used for this category of respondents is because they are the major decision-maker/strategist.

The credit officers working in the loans department at the equity bank, main offices were targeted because, primarily in their daily routines, they have to deal with customers when it comes to credit risk management to deal with problems of financial performance.

These individuals also had unique qualifications, therefore they are expected to provide detailed knowledge about the topic under study.

Given the large number of credit officers in the loans department at Equity Bank's major offices, simple random sampling was used to choose them.

This strategy simplifies selection and ensures that everyone has an equal opportunity to participate in the study. Simple random sampling, on the other hand, is preferred because its procedures are unbiased; hence, it prevents bias in their work and enables the researchers to study a larger population more effectively.

3.6 Data collection methods and instruments

3.6.1 Researcher-administered questionnaires

According to Katamba and Nsubuga (2014), a questionnaire survey is a set of questions prepared by the researcher to collect data. The questionnaire contained open-ended questions that required the respondent to provide more information about the subject matter, as well as the opportunity for respondents to express their opinions in a free-flowing manner while also giving them time to think before answering questions, as this avoided personal contact. Semi-

structured or closed-ended questions with answers were employed, and respondents were also asked to select the best appropriate answer concerning the topic matter. Because the researcher will be using researcher-administered surveys, she was part in the process of instructing respondents to ensure that the correct information is acquired from adolescents.

The questionnaires

were measured using a Likert scale where 5 (Strongly Agree), 4 (Agree), 3 (Not sure), 2 (Disagree) and 1 (Strongly Disagree).

3.6.2 Key Informant Interviews

The interviewers conducted face to face key informant interviews with the credit manager, risk manager and executive board from the head offices of Equity Bank bring the total to 8 key informants. An unstructured informant interview guide was used to acquire detailed information from key informants. The interview guide includes a list of topical subjects and questions addressed during the interviews. The tool includes questions designed to elicit professionals' perspectives on the relationship between financial risk management and the financial performance of Ugandan commercial banks. Key informant interviews were chosen because they provide detailed data that cannot be obtained from a questionnaire.

3.7 Data Quality control

3.7.1 Reliability

Dependability refers to the uniformity of measures; thus, the level of instrument dependability is determined by its capacity to generate the same measurement when repeated. The researcher created the questionnaire utilized in this investigation. To ensure the questionnaire's dependability, the supervisor analyzed the questions mentioned in the original questionnaire and determined the amount of time required to conduct the interview. The supervisor was asked to recommend any changes to the questionnaire for its use.

3.7.2 Validity

Validity entails ensuring that an instrument measures what it is designed to measure in light of the context in which it is used. The questionnaire prepared for this study was shared with

academic colleagues and a statistician, who reviewed it for face and content validity, conceptual clarity, and investigative bias.

3.8 Procedure of data collection

The researcher received an introductory letter from the School of Business Uganda Christian University, after which she requested permission from management at Equity Bank's main headquarters to use the case study and authorization from selected respondents to participate in the study. The researcher then approached the individual respondents, conducting interviews and distributing questionnaire guides.

3.9 Data analysis

3.9.1 Analysis of quantitative data

The acquired data was coded, entered into SPSS, a computer software database, cleansed of any errors made during data collection, and organized. The data was then analyzed statistically using SPSS and Microsoft Excel, both computer tools. The data was described and summarized using quantitative statistical approaches. The results were then evaluated in terms of descriptive statistics, frequencies, and percentages. The results were given in the form of tables and figures. Finally, the univariate level of analysis, which includes frequencies, percentages, means, and standard deviations, was applied.

3.9.2 Analysis of qualitative data

This includes content analysis. The qualitative data was edited and organized into relevant terms. In other words, a thematic approach was used to examine qualitative data, discovering themes, categories, and patterns. The findings highlighted recurring themes that could arise in answer to each guiding question from the interviews, with chosen direct quotations from participants serving as examples.

3.10 Ethical consideration

Ethics are behavioral norms or principles that distinguish between what is right and wrong. They assist in distinguishing between acceptable and undesirable behavior. Devlin, 2006. The ethical constraints prohibit data falsification or fabrication, hence boosting the search for knowledge and truth, which was the research's goal in May 2011. The way ethical concerns are

addressed and handled has a significant impact on the integrity of research findings. Honesty, objectivity, intellectual property respect, social responsibility, confidentiality, nondiscrimination, and many other values. (May, 2018). Voluntary participation and informed consent were permitted. The survey's purpose was clearly described, and respondents were graciously invited to participate in the study.

The organization's records were sensitive, and the respondents' safety was secured. According to Cohen et al. (2000), participants must be offered the choice to withdraw from the research, and the researcher must extend this privilege. This was noted in the first portion of the questionnaire and consent form.

Denis Combe (2018) addresses another issue: anonymity. To achieve this goal, the promise and concept of anonymity, as well as secrecy, were upheld. The names of the respondents would then be requested, emphasizing that the information would only be used in aggregate and for research purposes. Respondents were appreciated for their participation for ethical concerns. The researcher shared the study's findings with the responders since they were valuable.

3.11 Limitations and delimitations of the study.

Given the following issues about validity, the researcher was awarded a 5% margin of error at 0.05 (level of significance). Measures were offered to mitigate, if not remove, concerns about the study's conclusions' validity.

Instrumentation: The research instruments are not standardized. As a result, a validity and reliability test will be performed in order to determine a legitimate count of the study variables.

Testing: The employment of research assistants will result in inconsistencies in questionnaire delivery, including time, perception of questionnaire items, and clarification provided to respondents.

Attrition: Not all questionnaires were returned, fully completed, or even located. It is realistic to anticipate that some may not be able to return owing to conditions on the side of the respondents, such as travels, sickness, hospitalization and refusal/withdrawal to participate. In anticipation of this, the researcher reserved additional respondents by exceeding the minimum sample size. Respondents were also urged not to leave any items in the questionnaires unanswered, and the date of retrieval was strictly tracked

CHAPTER FOUR

4.0 Introduction

This chapter presents the findings of data analysis through tables and statements of description. The findings have been organized to correspond with the objectives of the study.

4.1 Background information on respondents and discussions

Information on background regarding the respondents was necessary since their capability to provide trustworthy information about the variables under study is partly told by their personal and professional backgrounds. Data on the respondents collected has been categorized and presented according to gender, education level, job position, age, length of service in the organization, types of accounts held, and duration of their relationship with the financial institution.

4.1.1 Gender Characteristics of Respondents

The study analysed and outlined the gender distribution of the respondents. The details of their individual genders are summarized in the table below:

Table 1: Gender characteristics of respondents

Gender	Frequency	Percentage
Male	13	42
Female	18	58
Total	31	100

Source: Primary data

Table 1 above depicts that the male respondents were 42% while female respondents summed up to 58%. This shows that there were more female participants than male, which was important for the study in ensuring a stable perspective of the respondents' views.

4.1.2 Education characteristics of respondents

Information about the level of education of the respondents was obtained, and results are shown in Table 2 below;

Table 2: Education Levels of Respondents

Level of education	Frequency	Percentage
certificate/diploma	0	0
Bachelor	27	87
Master	3	10
PhD	1	3
Total	31	100

Source: Primary data 2014

From table 2 above, it indicates that 87% of the respondents have a bachelor degree, 10% have a master's degree, 3% have PHD, and 0% has have certificate or diploma, this shows that most of workers are degree holders.

4.1.4 Description of age groups of respondents

The investigation shows data from the age groupings of the respondents to gain an idea about their age distribution and possibly the amount of experience they contribute to individual positions. The results are shown in Table 3 below.

Table 3: Age Groups of Respondents

Age group	Frequency	Percentage
18-20	1	0
21-25	8	26
26-30	0	0
30-35	14	48
40+	8	26
Total	31	100

Source: Primary data

From the above table 3, it is clearly seen that 48% of the of the respondent is between the age of 21-25, 26% fall in the age group of 21-25, and 26% fall in the age group of 40 and above. It shows that the greater number of workers fall in the age bracket between 30-35 years.

4.3 Effects of credit risks on financial performance of commercial banks in Uganda

Table 4: Employees responses on the significance of credit risks in the bank’s financial performance

Source: primary data

	Very significant	Significant	Neutral	Insignificant	Very Insignificant
SCORES	29	2	0	0	0

The following table shows that 94% of the workers find credit risk management very significant in the bank/banks financial performance and 6% find credit risk management significant, 0% are not definitely, 0% find it unimportant, and 0% completely unimportant.

Table 5

Statement of Inquiry	SD	D	N	A	SD	Mean	Sd
Credit risks management has improved the bank’s loan performance	0	0	0	7	24	15.5	11.25
Credit risks management practises have reduced the incidence of non-performing loans	0	0	1	12	18	10.3	8.74
Managing credit risks has a direct positive impact on the Bank’s profitability.	0	0	3	7	21	7.33	10.06

Source: Primary data

The data presented in the table shows that data on credit risk has improved bank loan’s performance, the respondents agreed that credit risks has improved the bank’s loan performance (mean score 15.5, SD 11.25).

What is more, the respondents agreed that credit risks management practises reduced the incidence of non-performing loans, with a mean score of 10.3 and an SD of 8.72, as shown in the table above.

The respondents also agree that the management of credit risks has a direct positive consequence on the profitability of the Bank, with the mean score 7.33, SD10.06, and that shows correlation between effective risk management practises in driving financial performance.

4.4 Effects of operational risks on financial performance of commercial banks in Uganda

The Table 6: Employees responses on the significance of operation risks management on the bank's financial performance

Source: primary data

	Very significant	Significant	Neutral	Insignificant	Very Insignificant
Scores	21	10	0	0	0
Percentage	67.7	32.2	0	0	0

The table above shows 67.7% of the respondents agree that that operational risk is very significant, 32.3 % find it significant, 0% do not know and 0% find it insignificant and also 0% find it very insignificant

Table 7

Statement of Inquiry	SD	D	N	A	SA	Mean	Sd
Effective operational risks management has improved bank's internal process	0	0	0	18	13	15.5	10.2
Operational risk management practises have reduced operational losses	0	0	2	21	8	10.33	11.85

Managing operational risks has a direct positive impact on the bank's financial performance	0	1	3	26	11	10.25	10.88
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Source: primary data

According to the table above, the respondents expressed agreement that effective financial risks management has improved bank's internal process with 6, 2 and sd of 10.02. The respondents also agreed that operational risks management practises have reduced operational loses with a mean of 6.2 and standard deviation of 11.85, This shows that the operational risks management practises operate effectively in reducing operational loses. The respondents also agreed that, operational risks management has a direct positive impact on the bank's financial performance with mean of 6.2 and SD of 14.47 as indicated in the table 7 above.

4.5 Effects of market risks management on financial performance of commercial banks in Uganda.

Table 8: Employees responses on the significance of market risks management in the bank's financial performance.

Source: primary data

	Very significant	Significant	Neutral	Insignificant	Very Insignificant
SCORES	21	10	0	0	0
Percentages	67.7	32.3	0	0	0

By referring to the table above, one can identify that 67.7% of the total respondents agreed that market risks are very important, 32.3% of the respondents agree that market risks is important, 0% are not sure and 0% do not agree.

Table 9

Statement of Inquiry	SD	D	N	A	SA	Mean	Sd
Effective market risk s management has stabilised the bank’s earnings	0	0	1	8	24	11	11.8
Market risks management practices have4 minimised exposure to adverse market movements	0	0	2	16	13	10.33	7.60
Managing market risks has direct positive impact on bank’s financial performance	0	0	4	13	14	10.02	5.41

As shown from the table above, the respondents agreed that effective market risks management has stabilized the bank's earnings with a mean of 11 and a standard deviation of 11.8. This means that positive progress in stabilizing earnings is needed relatively and refinement of the strategies of risks management to get more consistent results.

The respondents also agreed that market risks management practices have minimized Exposure to adverse market movements with a mean of 10.33 and a standard deviation of 7.60; this means that this presupposes that while there is some success in the minimization of exposure to adverse market movements, the high standard deviation of 7.30 shows the need for further refinement and consistency in market risks management practises if better results are to be achieved.

Managing market risks has direct positive impact on bank's financial performance agreed the respondents with mean of 10.2 and standard deviation of 5.41

CHAPTER FIVE

5.1 Introduction

Credit risk, operational risk, and market risk were investigated as factors influencing the financial performance of Ugandan commercial banks. This chapter discusses the findings, draws implications from the study, and makes recommendations based on the results.

5.2 Discussion of findings

5.2.1 Credit risks and financial performance

According to research findings on credit risk and financial success, the majority Respondents significantly agreed that effective credit risk management benefited the bank's lending performance. Other credit risk implications on financial performance include a reduction in non-performing loans, which has a substantial impact on profitability.

This is reinforced by Jorion's (2007) results, which investigate the relationship between credit. By linking risk management to financial performance, Jorion stresses that banks with excellent credit risk management frameworks perform better financially because they efficiently control credit risks of default. This increases profitability and lowers financial distress.

Kargi 2011 investigated the effect of credit risk management practices on loan performance in Nigerian banks. The study discovered that banks with stringent credit risk management methods, such as extensive credit analysis and regular monitoring, likely to have superior loan performance. The banks have fewer defaults, with higher recovery rates on loans.

Epure and Lafuente (2015) investigated the impingement of credit risks management on NPLs in European banks. Their study investigated banks that had robust credit risk management frameworks, including sophisticated credit scoring models, and strict risk assessment process, experienced lower levels of NPLs. This decline in the level of NPLs reflects improved credit performance in that Banks lose less due to bad loans.

Makri et al. (2014) researched how credit risk management impacts profitability within the Eurozone Banks. Their findings showed that banks that had implemented effective credit risk management strategies experienced better financial performances due to the lower level of NPLs and reduced loan provisions. Improved credit risk management practises translate into improved profitability indicators. Including, among others, increased net interest margins and overall return on assets.

5.2.2 Operation risks and financial performance

Operative risks and financial ones According to findings of the research in view:

Performance: Most of the respondents strongly agree that effective operational risks

Management has enhanced the internal processes of banks. Nevertheless, other effects of operation risks on improved financial performance like reduction of operational losses and directly contribute positively to also relevant were the bank's financial performances.

The findings are supported by Basel II and III Accords, which formally recognized operational risks as a major type impacting the financial soundness of banks. The Basel guidelines stresses that operational risks must be managed alongside credit and market risks to ensure overall soundness. Effective management of operational risks helps banks reduce losses from internal Mistakes, fraud, system breakdowns eventually reach their bottom line.

Santtomero (1997) stated that an effective operational risks management results in It also enhances the bank's internal processes by understanding inefficiencies, bottlenecks, and vulnerabilities. Banks that implement ORM systems can have smooth business processes and increase service delivery, hence reducing process-related errors that enhance financial performance.

De Fontnouvelle et al. (2006) found that operational risk events such as fraud, system failures, human mistakes led to huge financial losses. Their study indicated that operational loses, if not well managed, might seriously undermine profitability; However, They also established that those banks that implemented good ORM practices, such as periodic risk assessment, collecting loss data and tracking risk events may result in lower frequency and severity of operational loses.

Akhigbe and McNuity 2011, analyzed the effect of risk management on profitability across US commercial banks. They observed that those banks that actively manage operational risks have fewer costs due to legal liabilities, fraud, and system breakdowns; and Improved profitability, In particular, they found that those banks investing in fraud detection, business continuity and compliance monitoring saw a direct improvement in their financial other performance measures include Net Interest Margin or NINM and ROA.

5.2.3 Market risks and financial performance

Findings on market risk and financial performance. The findings denote that the Most of the participants believe that effective market risk management has contributed to smoothing the bank's profits. Moreover, another impact of the operational risk on financial performance, such as minimizing exposure to unfavourable market fluctuations and having a direct positive effect on the bank's financial outcomes, were also noted. The study is supported by the following where Allen and Carletti, 2012 argue that efficient market risks management helps banks reduce the negative consequences of unfavourable market movements on their Profitability. Indeed, their study proved that banks with comprehensive risk these included hedging and diversification management strategies. Thus, increasing stability in earnings and improvement in financial performance compared to companies with ineffective risk management practises. Klein, in 2013, studied the function of hedging strategies in stabilizing the earnings of banks. He found that the banks use derivatives and other instruments to hedge against interest rate and were thus able to smooth earnings fluctuations over time. This temporal smoothing of earnings result in in a more predictable financial performance and reduced earnings volatility, Culp, 2001 studied how banks use risk management strategies such as diversification and derivative instruments to decrease exposures, market risk management practices experienced face lower degrees of financial distress in a period of turmoil because of the fact that they could: Offset the effect of an adverse market movement, Schafer et al. (2011) researched the impact that market risk management has on profitability during these periods of financial crisis, they reported that banks with sound risk management frameworks. were better able to market shocks and maintain profitability. Their research showed that effective management of market risk brings lower losses from market fluctuations and improves financial performance.

5. 3 Conclusion

5.3.1 Conclusion on Credit risks and financial performance.

The findings of this study indicate that effective credit risk management significantly adds value to improved bank loan performance was through a reduction in NPLs, thereby impacting directly on impact on banks profitability. By minimizing the incidence of NPLs, banks are able to reduce their provisional costs and raise interest incomes, thus leading to improved financial performance.

With this, robust risk management systems do have a great role to play.

It is defined as profitability without sacrificing the long-term health of the bank.

5.3.2 Conclusion on Operational risks and financial performance

These findings indicate that active financial risk management is in fact The internal processes within the bank are improved and make operational losses minimal. In turn, these risks are significantly reduced when strong risk controls and monitoring systems are implemented with inherent inefficiencies and operational failures thus ensuring smoother operations. It directly contributes to improved economic performance by reducing costs associated with operational losses and improving profitability. Generally, the study stresses that sound financial risk management practices could therefore be availed to improve processes and ensure long-term financial security.

5.3.3 Conclusion on Market risks and financial performance

Evidence from the study concluded that efficient management of market risk was crucial in sustaining stability. The bank's earnings through lessening their exposures to adverse market movements. By adopting comprehensive market risks strategies can allow banks to reduce the eventualities of interest rates, currency values, and other market variables fluctuate. This reduction in being exposed to market volatility directly contributes to improved financial performance because of protecting profitability, making sure of more.

5.4 Recommendations

The recommendations below are based on the study's findings.

The research found that good credit risk management has a considerable impact on financial performance. As a result, effective credit risk management frameworks must be built in order to improve overall financial outcomes. Bank management should prioritize dealing with operational and market risk issues. This also has a good impact on financial performance. Acting in a timely manner requires addressing such difficulties and implementing prompt corrective steps to avoid any losses that could affect the bank's profitability.

5.6 Areas for further study

This paper discusses the impact of financial risk management on commercial bank financial performance. However, it does not cover all types of financial risks. Additional risk analyses, such as compliance and legal risks, technological risks, reputational risks, and strategic risks, should be considered.

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APPENDICES

Dear respondent,

I am ATIM RACHEAL, a final-year student at Uganda Christian University UCU, attached to the School of Business pursuing a Bachelor's degree in Science in Accounting and Finance, Uganda Christian University (UCU). I'm conducting research on the effects of financial risk engaged in the impact of management on financial performance in commercial banks in Uganda selected to participate in the study. I humbly request your assistance and cooperation when collecting information regarding this study.

This is purely an academic exercise, and I hereby guarantee confidentiality for any information provided.

Section A

Respondent's Bio data. In this section, respond by only ticking in the appropriate space accordingly

Sex: Male..... Female.....

Age Group: 18-20 years..... 21-25 years..... 30-35 years..... 40 years and above.....

Employment status: Employed..... Not Employed.....

Marital status: Married..... Single.....

Nationality: Ugandan..... Others.....

Job at the bank:.....Teller....customer care consultant...management level...loans officer.....

Level of Education: Diploma.....Bachelor's degree.... Post Graduate Diploma.

Masters.....PhD....

SECTION B

4. How important is credit risk within your bank's overall risk management strategy?

(Tick where applied)

- Very Significant
- Significant
- Neutral
- Insignificant
- Very Insignificant

5. What measures does your bank take to mitigate credit risk? (Select all that apply)

- Credit Scoring Models
- Credit Limits
- Collateral Requirements

NO	STATEMENT	STRONGLY DISAGREE	DISAGREE	NUETRAL	AGREE	STRONGLY AGREE
		1	2	3	4	5
1	Effective credit risk management has improved the bank's loan portfolio quality.					
2	Credit risk management practices have reduced the incidence of non-performing loans.					

3	Managing credit risk has a direct positive impact on the bank's profitability				
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- Diversification of Loan Portfolio
- Other (Please specify): _____

6. To what extent do you agree with the following statements? (1-strongly Disagree, 2-Disagree, 3- Neutral, 4- Agree, 5- Strongly Agree

Section C

7. How significant is operational risk in your bank's overall risk management strategy?

- Very Significant
- Significant
- Neutral
- Insignificant
- Very Insignificant

8. What measures does your bank take to mitigate operational risk? (Select all that apply)

- Internal Controls
- Risk and Control Self-Assessments (RCSAs)
- Business Continuity Planning
- Staff Training Programs
- Other (Please specify): _____

9. To what extent do you agree with the following statements? (1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree)

NO	STATEMENT	STRONGLY DISAGREE 1	DISAGREE 2	NUETRAL 3	AGREE 4	STRONGLY AGREE 5
1	Effective operational risk management has improved the bank's internal processes.					
2	Operational risk management practices have reduced operational losses					
2	Managing operational risk has a direct positive impact on the bank's financial performance.					

SECTION D

10. How significant is market risk in your bank's overall risk management strategy?

- Very Significant
- Significant
- Neutral
- Insignificant
- Very Insignificant

11. What measures does your bank take to mitigate market risk? (Select all that apply)

- Hedging Strategies
- Diversification
- Interest Rate Risk Management
- Foreign Exchange Risk Management
- Other (Please specify): _____

12. To what extent do you agree with the following statements? (1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree)

NO	STATEMENT	STRONGLY DISAGREE	DISAGREE	NUETRAL	AGREE	STRONGLY AGREE
		1	2	3	4	5
1	Effective market risk management has stabilized the bank's earnings					
2	Market risk management practices have minimized exposure to adverse market movements.					
2	Managing market risk has a direct positive impact on the bank's financial performance.					

APPENDIX 11 (INTRODUCTORY LETTER)



UGANDA CHRISTIAN UNIVERSITY

A Centre of Excellence in the Heart of Africa

SCHOOL OF BUSINESS

10th Sep, 2024

TO WHOM IT MAY CONCERN

Name: **ATIM RACHEAL** Reg. **J22B33/011**
a bachelor's student who is seeking permission from your office to collect data for her dissertation titled

The Effects of Financial Risk Management on the Financial Performance of Commercial Banks. A case study of Equity Bank, Lira Bank

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

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter
Research coordinator



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