

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

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT
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**UGANDA CHRISTIAN
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DECLARATION

Financial risk management and financial performance of commercial banks in Uganda: a case study of Centenary Bank, Mukono Branch. I, Lenia Doreen, hereby declare that this research paper is my original work and that it has never been presented in any institution for any kind of award. I have reviewed the university's policies regarding plagiarism, and I thus certify that I have followed them all.

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APPROVAL

This acknowledges that I oversaw the completion of the research report titled "Financial risk management and financial performance of commercial banks in Uganda: a case study of Centenary Bank, Mukono Branch" and that it is now prepared for submission to Uganda Christian University's School of Business.

Signature: 

Date: 20/9/2024

DR. MUGISHA HENRY

(Supervisor)

DECLARATION

I would especially like to dedicate my effort to my parents, Mr. and Mrs. Eriku Jackson and Gaturude, who have always supported me academically. May you be generously blessed by the Almighty God.

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I'm grateful to the All-Powerful God for giving me life and guiding me through my education, which hasn't always been simple but is still attainable. I sincerely appreciate all of the hard work and knowledge that my supervisor, Dr. Henry Mugisha, provided to me while I was under his care.

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ABSTRACT

A case study of Centenary Bank's Mukono branch was used in the study to examine the connection between financial risk management and the financial performance of commercial banks in Uganda. With regard to Centenary Bank, Mukono, it specifically examined the relationship between financial risk identification and financial performance, established the relationship between financial risk assessment and financial performance, and evaluated the relationship between financial monitoring and financial performance.

A cross-sectional survey research design was employed to conduct the study, and both quantitative and qualitative research methods were applied. Purposive and basic random sample techniques were employed together with questionnaires and interviews to gather the data. Despite just 44 responders, the survey also included a sample size of 48 management and staff members from the Centenary Bank branch in Mukono.

The results showed that the bank's strong operational risk mitigation methods, clear processes and systems for recognizing possible financial concerns, and encouragement of employee reporting all greatly enhance financial performance. Furthermore, the bank's financial performance is positively impacted by its efficient use of cutting-edge risk assessment tools and models as well as its dedication to routinely reviewing and updating these procedures. Furthermore, there is a significant association between improved financial performance and the bank's use of cutting-edge technology to track market trends, conduct routine internal audits, and thoroughly evaluate financial statements. These results highlight the significance of proactive risk management techniques and financial oversight procedures for the long-term viability of Centenary Bank.

According to the study, Centenary Bank should prioritize compliance and internal audits, foster a culture of continuous improvement, strengthen its risk identification and assessment processes through knowledgeable evaluations and regular updates, improve employee engagement in risk reporting, optimize risk mitigation strategies, and emphasize long-term financial sustainability by striking a balance between prudent management and risk-taking for stability and resilience in shifting economic conditions.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

A case study of Centenary Bank's Mukono branch was used to investigate "the relationship between financial risk management and financial performance of commercial banks in Uganda." This segment provides an overview of the study, including its background, problem statement, purpose, objectives, research questions, scope, significance, and conceptual framework.

1.1 Background of the study

Academics worldwide concur that any economy's potential to grow economically depends on the stability and soundness of its banking system (Alqisie, 2018). Commercial banks offer credit to organizations and individuals in addition to helping savings. This credit can be used to support commerce, purchase capital assets, and support production (Abuya & Niyonsenga, 2017; Eton et al., 2018). By providing credit services to businesses and individuals, commercial banks (CBs) make money (Driga, 2012). In spite of this, commercial banks' financial performance keeps getting worse. For example, banks in China stated that for the first half of 2021, their total net profit decreased by 9.4% to CNY1 trillion. Because of reduced net interest margins and increased estimated credit losses in their rated portfolio, all Chinese commercial banks with Fitch ratings saw a fall in net profit.

Financial depth in sub-Saharan Africa is extremely low, averaging 6.8%, and has not improved over time, despite significant reforms in the financial system throughout the 1980s and 1990s aimed at enhancing access to financial services for private organizations (McDonald, 2007). According to Munyambonera (2013), low levels of private credit, high interest rate spreads, a high percentage of non-performing loans, poor asset quality, and operational inefficiencies have all contributed to the low profitability of commercial banks, which has dropped to less than 19%. Similar circumstances may be seen in Botswana, where the banking industry was able to keep the banks' solvency, stability, and

soundness throughout the global financial crisis that occurred between 2007 and 2012 (Bank of Botswana, 2013). All of this can be the consequence of inefficient in corporate operations, risk management of finances is a highly desirable goal.

This is due to the fact that it reduces the potential losses through their identification, analysis, assessment, control, and potential avoidance or elimination (Epetimehin & Obafemi, 2015). Financial risk management is the method that financial institutions use to control the risks that they are concerned about in the banking industry. These risks are known as financial risks (Al-Tamimi et al., 2015). The analysis and recognizing the type of risk the organization is experiencing, come up with the appropriate plans to deal with them while taking the institution's own priorities and policies into account (Dionne, 2013). Liquidity risk, credit risk, and operational risk were the financial risks taken into account for this study.

In recent years, a significant quantity of empirical research has been conducted on the influence of financial risk management on financial performance. The numerous studies that followed demonstrate the critical role that a nation's financial system plays as the cornerstone of a healthy and productive economy. The banking sector, which plays a major role in financial intermediation in emerging nations, is the backbone of every economy's financial system (Hawkins and Mihaljek, 2011). However, Mutukua (2016) asserts that all banks face a variety of risks and operate in an unpredictable and fragile environment, which could ultimately result in a commercial bank closing due to an inability to pay its debts. More significantly, Shah (2014) emphasizes that there are three main types of risks in the financial system: operational, business, and financial risks. Furthermore, as Carey (2011) points out, these risk exposures have turned banking into a risk-based industry, meaning that effective risk management is essential to commercial banks' continued existence.

Although risk management is thought to have a positive impact on enhancing bank financial performance, research in this field has produced mixed findings. Studies from the United Kingdom (Saeed & Zahid, 2016), Nigeria (Adeusi et al., 2014; Olamide et al., 2015), Kenya (Maritim, 2013; Mwangi, 2014), and other countries are at one end of the spectrum that claim a positive association. According to Mutukua (2016), risk management

has a favorable impact on bank performance by improving money management and cutting down on wasteful expenses like dubious advances. Studies from Kenya (Juma & Atheru, 2018) and India (Shetty and Yadav, 2019) on the other hand emphasize that a bad relationship ends. The negative correlation may result from banks taking less risks and using less leverage as risk management procedures become more stringent, which lowers bank profitability.

Studies indicate that commercial banks are crucial to the functioning of any economy. Commercial banks function as financial resource conduits through the mobilization of savings (Franklin & Elena, 2012). Major commercial banks in Uganda are headquartered in Kampala, with branches and main offices located there. These banks include: Stanbic Bank, Centenary Bank, Post bank, African Development bank, Equity Bank, DFCU Bank, Bank of Africa, ABSA Bank, Eco Bank, Cairo International Bank, Diamond Trust Bank, Standard Chartered Bank, among others.

These banks cater to a greater market share of clients from a variety of rural, urban, and peri-urban locations in Central Uganda. Because they hold such a sizable and diverse portion of the market, most banks are subject to a high level of financial risk. This risk can worsen the bank's profitability, liquidity, and solvency if it is not adequately handled and leads to a rise in loan defaults and non-performing loans.

Financial growth at Centenary Bank depends heavily on efficient risk management. Recognizing and controlling risk continues to be crucial and serves as the foundation for all company operations. Credit risk, operational risk, compliance risk, business risk, strategic risk, market risk, liquidity risk, and taxation risk are the main risks to which Centenary Bank is exposed, according to the 2019 annual report. According to Centenary Bank (2019), the bank's profits would suffer greatly if these concerns materialized.

The implementation of risk management in Ugandan financial institutions has been facilitated by the Bank of Uganda's basic recommendations, including those released in 2010 (Bank of Uganda, 2013). In addition, the Bank of Uganda established the Credit Reference Bureau (CRB) as part of its efforts to reduce risks in the banking industry (Bank of Uganda, 2021). Both financial institutions and their debtors must register.

The background information provided above demonstrates how banks and regulatory bodies have collaborated to reduce the financial risks that impact commercial banks and other financial institutions. In order to establish effective mitigation strategies, it is first necessary to understand the types of financial risks to which a bank is primarily exposed and how those risks may impact its financial performance. As a result, this study investigated the connection between Centenary Bank's commercial banks' financial performance and their management of financial risk.

1.2 Problem statement

In Uganda, commercial banks have endeavored to improve financial performance by introducing several financial risk management protocols, including identification, evaluation, monitoring, and control of credit risk (BoU, 2020). Despite the implementation of these measures, Uganda's banking industry has underperformed financially over time, as seen by an increase in bad loan write-offs and portfolio at risk (Bank of Uganda Annual Supervision Reports, 2014-2020).

As an example, consider Centenary Rural Development Bank Group Limited, which faces the possibility of incurring a variety of losses in the course of conducting business, either for its stakeholders or for itself. In 2019, for example, Centenary Bank disclosed a credit loss from loans of Shs 31,916 million, which was significantly more than the Shs 28,879 million reported in 2018 (Centenary Bank, 2019). Furthermore, it has been noted that the bank's financial performance declined in 2018 and 2019. The bank's return on equity (ROE), which measures financial performance, was 28.3% in 2019 compared to 24.8% in 2018. This indicates a decline in financial performance (Centenary Bank, 2019).

However, according to Centenary Bank (2020), their ROE declined to 19.2% in 2020, indicating a decline in financial performance. It is unclear, though, if this is a result of the bank's inability to control credit risks.

Moreover, earlier research on performance and financial risk management was done in respect to other factors. For instance, Mutangili (2011) found that a significant rise in NPL

creates long-lasting tailwinds that severely impair macroeconomic performance on multiple fronts. The study focused on credit risk management and nonperforming loans. A study on the risk management strategies used by Kenyan banking institutions was also conducted by Bessis (2012).

The effects of credit risk management techniques on the loan performance of deposit-taking microfinance firms in Kenya were also investigated by Korir (2012). This study was required because, to the best of our knowledge, none of the previous research had examined the relationship between financial risk management and the financial performance of Ugandan commercial banks such as Centenary Bank.

1.3 General objective of the study

Using Centenary Bank's Mukono branch as a case study, the study's main goal was to investigate the connection between financial risk management and the financial performance of commercial banks in Uganda.

1.4 Specific objectives of the study

This study was guided by the following specific research objectives:

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

1.5 Research questions

The study aimed at answering the following questions:

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

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

1.6 Scope of the study

1.6.1 Content Scope

With financial risk management acting as the independent variable and financial performance acting as the dependent variable, the study's main focus was on the relationship between financial risk management and the financial performance of commercial banks in Uganda. Financial risk assessment, financial risk identification, and financial monitoring are some of the procedures that were used to gauge financial risk management. However, profitability, return on equity, return on assets, cost-income ratio, and total capital ratio were used to gauge financial performance.

1.6.2 Time scope

Since the institution had set aside four months for research, the study was carried out during that time, from May to August 2024. On the other hand, the researcher examined data for secondary data during a period of five (5) years, from 2018 to 2022.

1.6.3 Geographical scope

The study was conducted at the Centenary Bank branch in Mukono, Uganda, which is situated on Plot 115-117, Kampala-Jinja Road. It was chosen because it is one of Uganda's largest commercial banks and has experienced financial performance issues that could harm the bank's overall ability to function as a whole.

1.7 Significance of the study

Information about the efficiency of financial risk management techniques in enhancing the financial performance of commercial banks is supplied by the study. In order to enhance their financial performance, commercial banks can improve their financial performance by implementing the specific financial risk management that the study suggests.

Because the study serves as a reference point for developing suitable regulations that enable Uganda's commercial banks to implement acceptable financial risk management to enhance return on assets, investment, and equity, policy makers such as the Central Bank of Uganda profit from it.

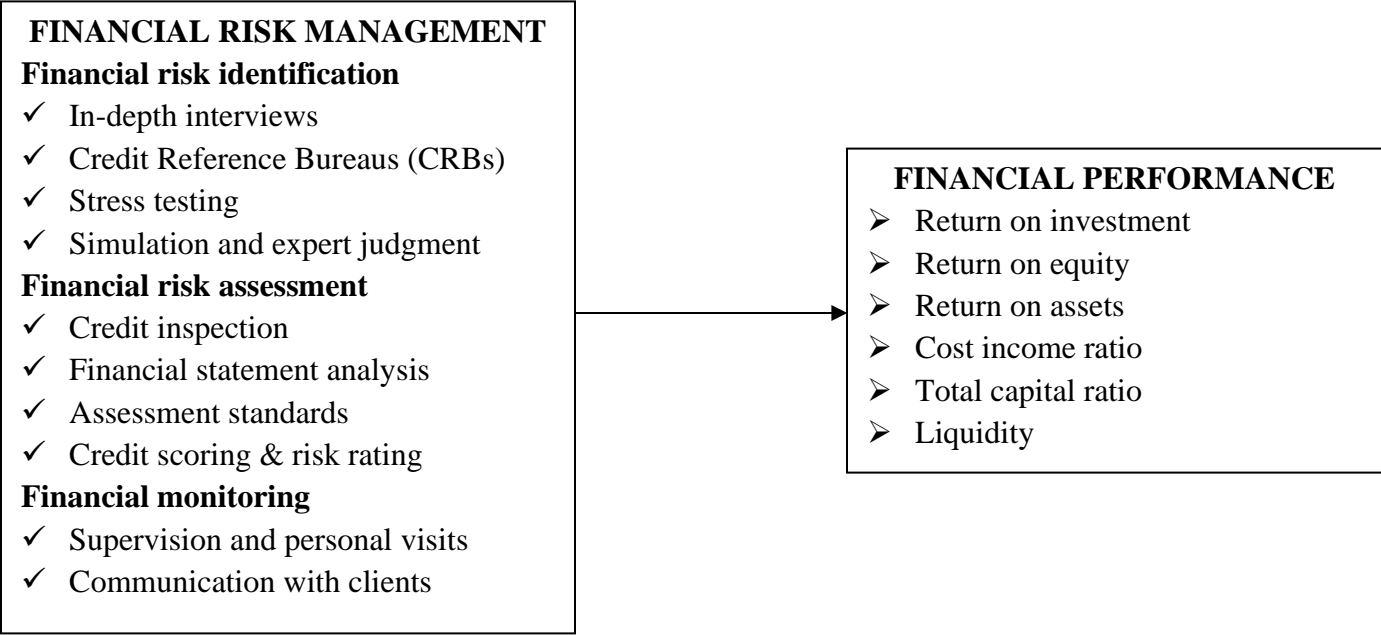
Researchers and academicians can also benefit from the study since it adds to the body of knowledge already available concerning financial risk management and financial performance in the banking industry. In conclusion, since research is a prerequisite for all students in the School of Business at the university, the study will also help the researcher graduate from her course.

1.8 Conceptual framework

Figure 1: Conceptual framework

Independent variable

Dependent variable



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

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The reviewed literature based on the study goals is presented in this chapter. The selection, analysis, and organization of the literature was done in accordance with the themes surrounding the financial performance of commercial banks and financial risk management. The chapter was presented in three sections: a review of different theories and concepts, an overview of the study's goals, a synthesis of the literature, and a research gap analysis. Books and periodicals that sought to shed light on prior research in this field of study were among the literature sources used.

2.1 Concept of Financial Risk Management

In Myint & Famery's (2012) definition, financial risk is the potential for monetary loss due to an entity's vulnerability to adverse events. There are several categories into which financial hazards fall. Myint and Famery (2012) have identified five primary financial risks, namely interest rate, currency, inflation, credit, and commodity risks. Financing risk, capital recovery risk, income distribution risk, and investment risk are the four financial risks that Fang (2016) highlighted. Tafri et al. (2009) describes concerns related to credit, liquidity, and interest rates.

Haque & Wani (2015) highlight the three previously mentioned risks in addition to capital risk and solvency risk. There are differences in how financial risk is classified.

The majority of financial risk indicators, according to financial risk literature, rely on financial ratios. Liquidity, coverage, operational, leverage, and investment ratios can be separated out of these. The ability to pay current commitments with liquid assets is gauged by liquidity ratios (Lucic, 2014). These consist of the fast ratio, which should have

a value of 1, and the current ratio, whose optimal levels should be between 1.5 and 2 (Błach, 2010).

Coverage ratios evaluate a debtor's capacity to repay debt. Operational ratios evaluate the effectiveness of management (Lucic, 2014). The sensitivity of net income to changes in operating outcomes and capital structure risk is measured by financial leverage (Solomon & Muntean, 2012; Bach, 2010). Efficiency ratios are used to quantify investment risks (Li & Si, 2013).

The act of handling the uncertainties brought on by financial markets is known as financial risk management (Christoffersen, 2011). In order to create management strategies that align with corporate aims and policies, it is necessary to evaluate the financial risks that a firm faces. An organization may gain a competitive edge by taking proactive measures to address financial risks. It also guarantees consensus among stakeholders, management, operational personnel, and the board of directors regarding critical risk issues (Jorion, 2007).

Making organizational decisions about which risks are acceptable and which are not is a necessary part of managing financial risk. By default, accepting all risks is part of the passive strategy that involves doing nothing. Businesses use a range of tactics and tools to manage financial risk. It's critical to comprehend how these risk-reduction tactics and goods function in relation to the goals and risk tolerance of the company (García & García, 2017).

2.2 Concept of Financial Performance

Financial performance, according to Ahmed and Nauman (2012), is the ability of a commercial bank to achieve a company's financial stability through strategic operational and investment decisions. It acts as a barometer for the bank's advancement toward its financial goals, which are established by goals and benchmarks in the financial domain.

Commercial banks' profitability, which is typically expressed in ratios, is used to evaluate their financial success. In order to assess performance, several ratios are utilized, such as Return on Assets (ROA), Return on Equity (ROE), net earnings as a percentage of the company's total assets or as a percentage of the shareholders' funds (Mallisa, 2013).

A bank's ability to maximize shareholder wealth through effective use of its resources is demonstrated by its Return on Assets (ROA), which measures how well the bank's resources may be leveraged to boost profitability (Muwonge, 2012). Typically, commercial banks' financial performance is evaluated using two ratios: return on equity and return on assets. A return on equity of 15% to 30% and a return on assets of at least 1% respectively suggest a strong financial performance for the bank (Ongore & Kusa, 2013).

There are now over 27 banks operating in Uganda, demonstrating the remarkable growth of the commercial banking industry there. With both domestic and international commercial banks, Uganda's commercial banking sector is broad. Over the years, the banking industry in Uganda has shown consistent growth. The overall asset base of UGX 5,116 billion, or UGX 370 billion, was held by 14 commercial banks in 2003. This amounts to an average asset base per regulated bank. The sector's total assets reached UGX. 33,380 billion by the end of 2019, with an average total asset growth of UGX. 1,280 billion per regulated bank over the previous 16 years (Ahumuza, 2020). This growth represents a 251% percentage of the asset base.

The last two years have seen a steady increase in the performance of Uganda's commercial banks (Bank of Uganda, 2021). Over the course of the year ending in December 2020, the value of non-performing loans remained mostly stable, although the profitability of Uganda's commercial banks improved marginally by 6.4% to UGX 855 billion (Bank of Uganda, 2021).

2.3 Relationship between financial risk identification and financial performance

The first step in effectively managing financial risks is identification. The bank management team must be aware of the risks that are part of their daily operations in order to properly manage credit risk. Identification of risks is associated with the hazards that businesses encounter on a daily basis. Threats can come from a variety of sources, but the most significant ones are from shareholders, clients, and governmental and legislative authorities. The approach taken to detect hazards may vary based on industry norms, culture, and compliance.

The most crucial aspect of risk identification is ensuring that the right conditions are in place for credit risk (Kromschroder & Luck, 1998). In each given organization, the board of directors is responsible for reviewing the strategies and policies related to credit risk management.

Shu (2014) states that among other things, a risk management strategy should pinpoint the bank's degree of profitability and risk tolerance. Among other things, risk detection involves examining branch protocols and examining the bank's financial records. The creation of standards, the evaluation of consumers' creditworthiness, risk rating, and collateral requirements are all essential methods of risk management.

According to Sonali (2015), credit risk management policies that have been approved by the board of directors should be actively implemented by the senior management team of commercial banks. Ensure that the bank's credit activities are in line with the defined strategy, that the established procedures have been developed and put into practice, and that the roles responsible for loan evaluation and approval have been appropriately and unambiguously assigned. Systems used to identify and monitor credit risk should be in line with the complexity and nature of the bank's operations, according to Valsamakis et al. (2015)

For the bank to successfully detect and assess its exposure to credit risk, these systems should provide information that is adequate, fast, and accurate. The senior management group should additionally guarantee that periodic, impartial internal evaluations concerning the issuance of credit are carried out.

The top management of the financial institution is in charge of making sure that sufficient and timely risk identification is carried out. The organization's directors have assigned the senior management team the responsibility of identifying any potential hazards that they may encounter while managing the various operations inside the company (Tabak, Fazio & Cajueiro, 2012). When handling riskier operations, the bank's chosen risk management technique ought to align with the tolerance level. The senior management team designates the risks to a certain group of teams to handle and manage, according to Acemoglu, Ozdaglar, and Tahbaz-Salehi (2015).

The organization's risk management teams work closely together to make sure that any risk that is recognized is appropriately managed to stop losses. In any event, preparations to reduce or manage risks can be performed more quickly the earlier they are recognized.

(2013) Mwangi and Muriuki looked on risk management in the oil sector in Kenya. The study found that, first, unit margins had decreased over time, and second, the necessity for Working Capital (WC) had increased due to rising oil prices and upfront tax payments. The industry was obliged to diversify into other avenues of income generation in order to survive. Due to the aforementioned, the oil industry was forced to take credit for its market share and sales volume.

High liquidity requirements combined with credit risk created a compounding impact. Waemustafa and Sukri (2015) state that risk identification is the cornerstone of lending institutions' risk management strategies. This ought to be done in an open way.

2.4 Relationship between financial risk assessment and financial performance

Numerous studies on risk analysis and assessment have been conducted with an eye toward risk measurement and mitigation. Nonetheless, different risks are categorized based on the potential and likelihood of their harm (Fuser et al., 1999). This aids management in categorizing hazards that endanger the existence and survival of the company. Waweru and Kalani (2014) state that there is an inverse link between the likelihood of a loss and its expected loss.

Thus, some risks, like fire and earthquakes, could have a significant impact on an organization, while other risks, like interest rates, would just cause minor difficulties and losses. Al-Tamimi and Al-Mazrooei (2007) observed that risk management procedures, such as risk analysis and assessment, have a notable impact on the performance of commercial banks in the United Arab Emirates. The banks in the United Arab Emirates have established explicit protocols for evaluating risks, taking into account potential losses, degree of severity, and likelihood of occurrence.

As per Bhattacharya's (2011) argument, risk analysis needs to be conducted appropriately in their respective settings. For example, credit risk needs to be examined in relation to cash flow modelling and simulations.

This will make it possible for financial organizations, such as banks, to manage risks appropriately and adequately train their employees to do so. The stronger and better risk management techniques employed by the nation's bigger banks have had a positive impact on their financial performance, according to Drzik (1995).

Risk analysis was previously defined as the process of assessing inherent risk. These days, risk analysis extends beyond this since it includes processes and decision-making abilities to enhance risk management. Techniques as simple as brainstorming can be used to analyze risks intuitively. Sorge (2014) claims that while brainstorming is quick and easy,

it lacks broader applications compared to other sophisticated risk assessment methods and procedures.

In terms of the performance of commercial banks, Sundararajan (2007) asserts that the application of contemporary risk management strategies, particularly with regard to credit and overall banking risk, is critical. 2010 saw the completion of a research by Wanjira on the impact of NPLs on bank performance. The study concluded that prudent procedures for controlling the amount of non-performing loans (NPLs) must be implemented by commercial banks. According to the study, identifying liquidity, credit, market, and operational risks was a traditional aspect of risk identification.

2.5 Relationship between financial monitoring and financial performance

The monitoring, measurement, and control of credit risks are among the responsibilities of the risk manager, according to Read and Gill (2015). One of a risk manager's responsibilities is to ensure that there are no foreseeable events or developments in the future that could negatively impact the bank's capacity to adapt. Commercial banks must implement sufficient review and reporting systems to accurately detect, evaluate, and manage the inherent risks in order to manage credit risk in a sound and efficient manner.

By keeping an eye on risk, a company can make sure that its risk management practices are in line with its overarching goals. This assists a financial organization in identifying errors early on (Al- Tamimi & Al Mazrooei, 2007). Epure and Lafuente (2012) state that risk monitoring occurs in the latter phases of the risk management process.

Parrenas (2005) asserts that due of their rights within the organization, investors and other stakeholders have the ability to voice their expectations while evaluating the efficacy and efficiency of the latter. The director's report is what shareholders look to when assessing an organization's knowledge of credit risk management procedures and how they have impacted organizational performance (Chen & Pan, 2012). Many firms have

implemented advanced risk monitoring methods, according to Rajan (2014). In the majority of organizations, these models are still in the implementation stage.

The three steps of credit risk monitoring are simple risk control, estimating the chance of a default, and connecting economic capital and return, according to Pateresson and Isaac (2014). Commercial banks should establish minimum rates of return that must be met by each portfolio. Ben-Naceur and Omran (2009) observed that bank capitalization and credit risk have a positive and significant impact on banks' net interest margin, cost efficiency, and profitability in an effort to evaluate how banking regulation affected the performance of commercial banks.

Ngare (2008) conducted research on the impact of credit risk management strategies on the operational efficiency of commercial banks. The study specifically looked at the unique hereditary hazards and potential remedies for these problems. The study used questionnaires to gather primary data. The results of the analysis showed that lending and other banking organizations employed qualitative approaches and instruments for loan assessment. Felix and Claudine (2008) investigated the impact of credit risk on commercial banks' performance.

Return on equity and return on assets were both used to calculate performance. Credit risk was found to have an impact on commercial banks' operating results. Credit risk management's impact on commercial banks' earnings was studied by Juanjuann et al. (2009) in Sweden. Based on the data, credit risk and commercial bank profitability were significantly correlated negatively. It is demonstrated by this that a rise in credit risk accounts for a decline in business profitability.

Kithinji (2010) looked into how commercial banks' profitability was affected by credit risk management. The data used in the study were gathered between 2004 and 2008 and were conducted in Kenya. Software called SPSS was used to evaluate the gathered data. The results show that the amount of credit and the amount of non-performing loans (NPLs) do

not account for the majority of commercial banks' performance. Chen and Pan (2012) investigated the impact of credit risk on the performance of commercial banks in Taiwan. Information was gathered between 2005 and 2008.

Financial ratios evaluated credit risk. The results showed that the banking industry's performance was impacted by credit risk management procedures. Bessis (2010) examined the impact of risk management strategies on financial results. Malaysia was the study's location. This study made use of both primary and secondary data. The results showed that risk management greatly influenced how well commercial banks performed.

2.6 Research gap

The literature study revealed a range of research projects that have been carried out to establish a connection between commercial banks' financial performance and financial risk management. Studies like those done by Afriyie & Akotey (2012), Ahmed & Nauman (2012), Akong'a (2014), Eppy (2005), Ismail (2010), Sathyamoorthi, Mapharing, Mphoeng, & Dzimiri (2020), among others, have yielded conflicting results, reporting both positive and negative effects.

These studies have also been noted to have been carried out in various situations and without following standard procedures. With regard to financial risk management and how it impacts commercial banks' financial performance, there was a particularly large empirical literature deficit in the Ugandan environment.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the methods utilized for data gathering and the study methodology. The study region and population, sampling procedures, sample size and composition, data collection techniques, data processing techniques, data analysis techniques, data quality control, dependability, and ethical considerations are all including in the research design.

3.1 Research design

Planning the research strategy is what Ahuja (2009) defines as research design. It organizes what has to be observed, how it should be observed, when and where it should be examined, why it should be observed, how to document observations, and how to draw conclusions. Cross-sectional survey research was used in the study.

Data collecting for cross-section survey research involves drawing conclusions about the population of interest at a specific moment in time. Because it can look into how different demographic factors—like age, for instance—affect individual differences, it was used. Furthermore, the association between financial risk management and the financial performance of commercial banks was investigated by correlation and regression analysis. The utilization of this research design was motivated by its ability to cut down on expenses and waste of time, while also producing insightful findings in the form of detailed study data and statistics.

Both quantitative and qualitative research methods were used in the research design. The systematic empirical analysis of observable events using statistical, mathematical, or numerical data or computing techniques is known as the quantitative research methodology in the social and natural sciences (Trochim, 2006). The use of a quantitative research approach was motivated by its increased objectivity and reliability, as well as

its ability to help the researcher apply statistics to generalize the findings, simplify complex problems into a small number of variables, test theories and hypotheses, and, finally, identify the relationship between the two variables. Quantitative data was gathered using both closed-ended and open-ended questionnaires.

According to Denzin and Lincoln's (2005) textbook on qualitative research, qualitative research entails "an interpretative naturalistic approach to the world." This means that qualitative research looks at objects in their natural environments and tries to understand or interpret events in terms of the meanings that individuals assign to them. The use of a qualitative research approach was justified by its ability to yield information about the subject of the study as well as human behavior, emotions, and personality traits of the respondents. Qualitative data was collected through interviews.

3.2 Study area and population

The study was conducted at the Centenary Bank branch in Mukono, Uganda, which is situated on Plot 115-117 on the Kampala-Jinja Road. It was chosen because it is one of Uganda's largest commercial banks and has experienced financial performance issues that could harm the bank's overall ability to function as a whole. A total of 55 employees, who work in the chosen departments at the Centenary Bank branch in Mukono, according to the bank's human resource officer, were included in the study as the study population.

3.3 Sample Size and Sample Determination

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

Table 1: Population and sample size

Departments	Population	Sample size	Sampling method
Administration	5	4	Purposive sampling
Credit department	23	20	Simple random sampling

Operations department	15	14	Simple random sampling
Auditing department	7	6	Simple random sampling
Information & Technology department	5	4	Simple random sampling
TOTAL	55	48	

Source: Centenary Bank, Mukono branch (2024)

3.3.1 Sample size determination

Sample size, as defined by Katamba & Nsubuga (2014), is the fraction or subset of the entire population. The sample size was ascertained using Slovin's formula for sample calculation, which is as follows:

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

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

“N” (population) = 55 staff

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

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

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

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

$$n = 48$$

As a result, based on the above data, the sample size was 48 responses out of the 55 management and staff members of the Centenary Bank branch in Mukono. The bank manager and the risk management manager, who took part in the study as key informants, were also included.

3.4 Sampling methods

Information necessary for the sample selection process is provided by the sampling techniques. In addition, it offers a comprehensive base from which the study sample can be selected, as well as a sufficient population for a well-chosen participant pool (Lewis and Ritchie, 2003). Purposive and basic random sampling techniques were both employed by the researcher. Key informants for this study included the Risk Management Manager and the Bank Manager, who were chosen through the use of the purposeful sampling approach. The purposeful sampling strategy was chosen because, despite their small number, it aids in the selection of top management due to their familiarity with the subject matter.

Given their large number, the employees in the other departments of the Centenary Bank Mukono branch were chosen using simple random sampling. This method made the selection process easier and allowed every individual to participate in the study. Simple random sampling was chosen because it prevents bias in the research process and makes research on large populations more practical.

3.5 Data collection methods and instruments

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

3.5.1 Questionnaire survey

A questionnaire survey is a technique for gathering data from participants that makes use of standardized questionnaires (Mugenda & Mugenda, 2003). Because questionnaire surveys offer a high degree of general competence in reflecting a broad population, Amin (2005) suggests employing them. The data being acquired has a deeper understanding of

the subject matter being investigated because of the customary large number of respondents to surveys.

A questionnaire was used in this instance to collect data. In the study, the researcher employed questionnaires with and without answers. Closed-ended questions were employed due to their ease of use and speed in answering, as well as their ability to enhance response consistency. Additionally, because open-ended questions do not impose any restrictions on the response, survey participants were free to share with the researcher whatever they felt was pertinent or information they felt the researcher should know.

The staff members holding the other department roles at the Centenary Bank branch in Mukono were given the questionnaires. The self-administered questions employed a five (5) Likert scale with 1 (Strongly Disagree), 4 (Agree), 3 (Not Sure), 2 (Disagree), and 5 (Strongly Agree);

3.5.2 Interviews

Ahuja (2009) defines an interview as a two-person discussion that is started by the interviewer with the express intent of gathering information for his research and that is concentrated on the topics defined by the research objectives of description and explanation. An interview guide, or series of structured questions, was used as the data collection tool in this instance. The interviewer documented her responses to the questions (Ahuja 2009).

The reason it was utilized was to save time because it allows the researcher to decide what questions to ask. Top management (administration) personnel, particularly the bank manager and the manager of risk management at the Centenary Bank branch in Mukono, were the primary informants in interviews that took place in a noise-free, quiet environment. The interview's purpose was then explained, and confidentiality agreements were discussed. A casual conversational framework was constructed for the interview, in which the interviewer recorded the interviewee's responses to questions.

3.6 Data collection procedure

After receiving an introductory letter from Uganda Christian University's School of Business, the researcher asked the various respondents at the Centenary Bank branch in Mukono for permission to utilize their responses as a case study. The researcher then made contact with a range of respondents in order to distribute the questionnaires and conduct interviews.

3.6 Quality and control

3.6.1 Validity

Validity is guaranteed, according to Cohen, Manion, and Keith (2007), by selecting an appropriate scale, making sure there are enough resources to conduct the necessary research, choosing an appropriate methodology to ensure the research questions, avoiding having too long or too short of a gap between the pre- and post-tests, making sure that procedures for collecting data or for information administering tests are standardized, and customizing the instruments to the respondents' attention span.

To ascertain whether the questions are able to capture the desired data, a validity analysis was conducted. Since instruments are meant to measure what they are supposed to measure, the researcher first verified the validity of the tools used in data collection by conducting a pre-test in which five Centenary Bank employees each received ten questionnaires. The researcher made every effort to be heavily involved in both data collection and analysis in order to minimize the possibility of errors in her research.

3.6.1 Reliability

Reliability was defined by Mugenda & Mugenda (2003) as the extent to which a research tool produces consistent data or results following multiple trials. When an instrument yields consistent results even when administered by different researchers, it is considered dependable. It must be able to measure what it is designed to assess consistently. Prior

to sending the questionnaire to many respondents, a pilot study on this research issue was conducted on the same few respondents.

3.7 Data analysis

3.7.1 Analysis of quantitative data

The information was coded, entered into a database created with computer software called SPSS, arranged, and checked for mistakes that might have happened during the data collection process. After that, the data was statistically examined using Microsoft Excel and SPSS (computer program). Data summaries and descriptions were created using qualitative statistical methods. The frequencies and percentages from the results were then evaluated using descriptive statistics. Tables and figures were used to present the results.

3.7.2 Analysis of qualitative data

Content analysis was required for this. As a result, the qualitative data was revised and rearranged into coherent sentences. Stated differently, a thematic method was employed to identify themes, categories, and patterns in qualitative data. The findings included the recurring themes that surfaced in response to each of the interview's leading questions, along with a few chosen direct quotes from the subjects as examples.

3.8 Ethical considerations

The respondent's consent and clearances from the ethical body are among the ethical issues that Nsubuga & Katamba (2013) list. When we talk about the minimal concerning safety, psychological wellbeing, and the person's or community's psychological well-being, we're talking about the moral justification of the investigation or action. In carrying out the study, the researcher demonstrated a high standard of ethical behavior, maintaining confidentiality and using the data collected from the field only for scholarly inquiries.

To further provide people the opportunity to express themselves, the respondents also provided their anonymity. More importantly, prior to their inclusion in the study, each responder gave their informed permission.

3.9 Limitations and delimitations of the study

A number of respondents expressed reluctance to divulge information due to concerns about the intended use of the data. This was resolved by receiving an introduction letter from the university and by the nice excellent reputation of the learning institution in the study area.

The researcher was constrained by the financial resources required to support the study, including incentives for the respondents, costs for printing, and even daily transportation to the organization for data collection. Nonetheless, the researcher mobilized family financial support through self-initiatives and tactics.

A few individuals took longer than expected to return the surveys, which impacted the researcher's intended analysis time. This was resolved by sending out more questions than were intended, which enabled her to fill in the blanks for individuals who neglected to return the surveys.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND DISCUSSION OF RESULTS

4.0 Introduction

The findings of the analysis conducted to examine the particular goals of the study and in connection to the examined literature are presented and discussed in this chapter. Employees and management from the Centenary Bank branch in Mukono were interviewed for the study, and questionnaires were also used. For the sake of clarity and comprehension, the results are presented using tables and bar graphs.

4.1 Response rate

Out of the 48 questionnaires that were distributed, 44 were completed and sent back. As may be seen in table 2 below, the questionnaire response rate was 91.7%.

Table 2: Response rate

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

Source: *Primary data*

Based on Creswell's (2017) recommendation that a response rate of 50% is adequate for analysis and reporting, a rate of 60% is good, and a rate of 70% and above is excellent, Table 2 above provides an overview of the response rate and indicates that data was collected from a reasonable number of respondents. As a result, the collected data and the findings are sufficiently representative of the population. As a result, the 91.7% response rate was both good and adequate.

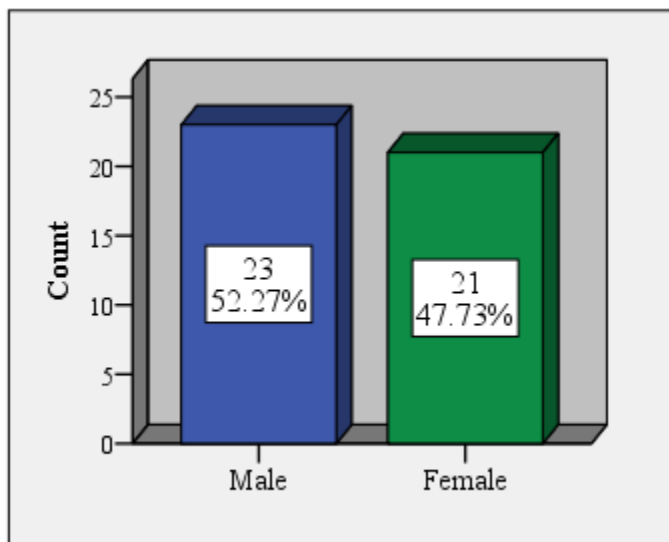
The majority of the respondents were unwilling to participate, and there wasn't much time left to submit the report, which is why the research was unable to receive a 100% response rate.

4.2 Findings on demographic characteristics of respondents

4.2.1 Gender of the respondents

The gender distribution of the respondents who work at Centenary Bank in Mukono is summarized in the figure below, and the information in the figure was interpreted as follows.

Figure 2: Gender



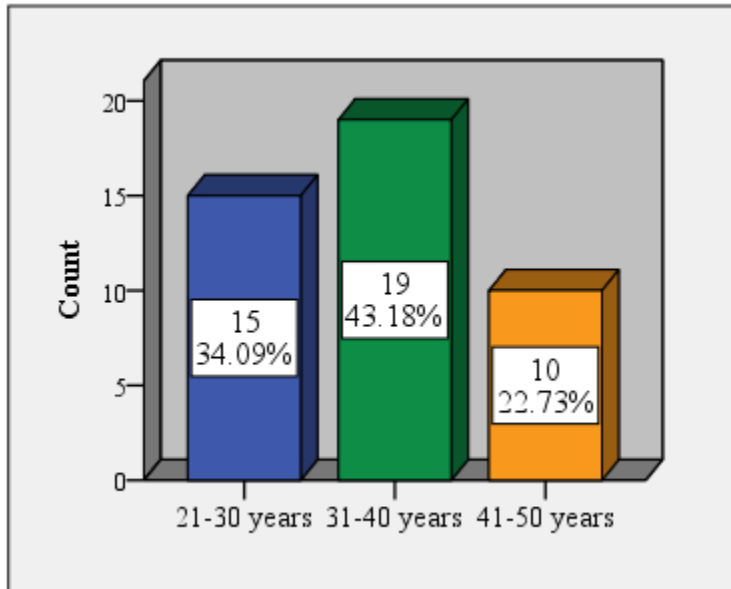
Source: Primary data

The results displayed in figure 2 above indicate that, of the respondents to this survey, there were more men than women. Specifically, men filled out 52.3% of the questionnaires, while women filled out 47.7%. Nonetheless, the purpose of include both genders in the survey was to obtain a balanced perspective of answers from various commercial bank employees.

4.2.2 Age of the respondents

The age distribution of the respondents who work at Centenary Bank-Mukono is shown in the figure below, and the information is explained below.

Figure 3: Age



Source: *Primary data*

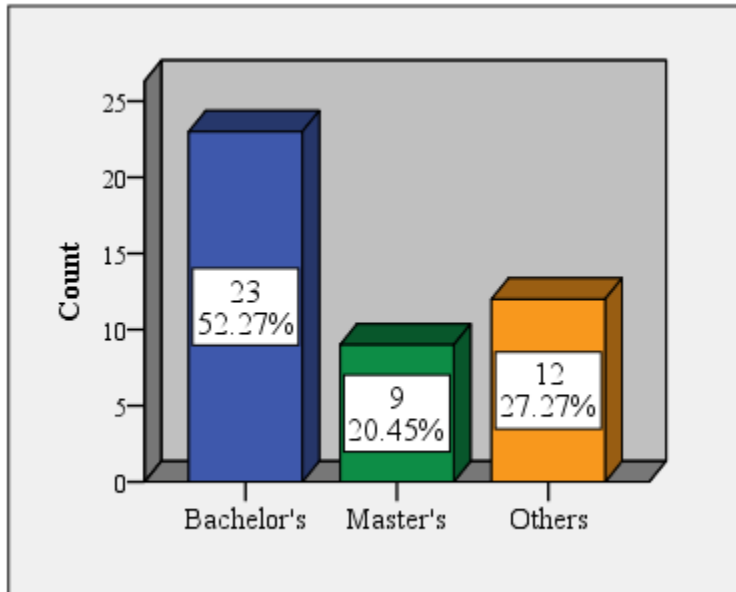
The results presented in Figure 3 above indicate that 43.2% of respondents fell within the age group of 31 to 40 years, followed by 34.1% of respondents who fell within the age group of 21 to 30 years, and 22.7% of respondents who fell within the age group of 41 to 50 years. Therefore, since information was obtained from individuals in all age groups, it may be assumed that there was no age discrimination.

It also demonstrates that a mix of recent hires and experienced staff members have joined the company, which is advantageous for the commercial bank's long-term viability.

4.2.3 Education level of the respondents

The education level of the respondents who work at Centenary Bank in Mukono is summarized in the figure below, and the information in the figure was interpreted as follows.

Figure 4: Level of education



Source: *Primary data*

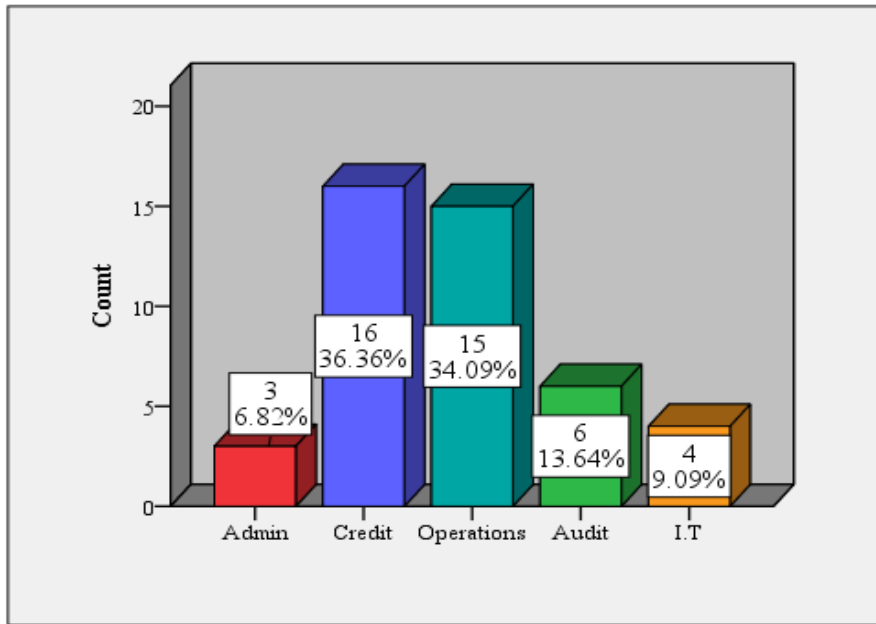
According to the findings in figure 4 above, the majority of respondents—52.3%—have bachelor's degrees. This is followed by 27.3% of respondents who have earned additional qualifications like ACCA, CPA, and postgraduate diplomas, and 20.4% of respondents who stated that they have master's degrees. These findings indicate that Centenary Bank-Mukono employees are well-educated. This suggests that, given the type of job that workers are required to do, Centenary Bank-Mukono hires highly competent personnel.

In order to get perspectives and opinions from persons with varying levels of education, the respondents' educational background was crucial to the study.

4.2.4 Department respondents belong to

The departments that the respondents who work at Centenary Bank-Mukono are summarized in the figure below, and the data in the figure was interpreted below.

Figure 5: Department



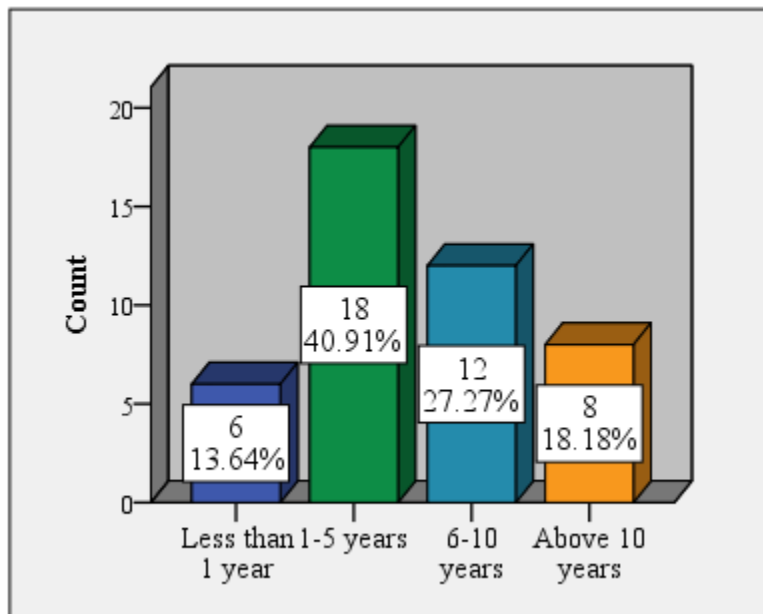
Source: *Primary data*

The results displayed in Figure 5 above indicate that the majority of respondents, or 36.4%, work in the credit department of Centenary Bank. These respondents are followed by those from the operations department, or 34.1%, those from the audit department, or 13.6%, and those from the information technology department, or 9.1%, where as the minority at Centenary Bank consisted of individuals from the administration department, who made up 6.8% of the entire population. This suggests that data was obtained from several divisions within the commercial bank (Centenary Bank-Mukono branch), which aided in the collection of data and diverse viewpoints regarding the subject matter at hand.

4.2.5 Period spent working with Centenary Bank- Mukono Branch

The time respondents who work at Centenary Bank-Mukono have been employed there is summarized in the figure below, and the data in the figure was interpreted below.

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



Source: *Primary data*

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

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

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

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

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

Source: *Primary data*

Table 3 depicts the descriptive statistics regarding the connection between Centenary Bank, Mukono's financial performance and the identification of financial risk. A total of 9% of respondents disagreed and strongly disagreed with the statement, while 18.2% were unsure. The study found that the bank has clearly defined procedures and systems in place to identify potential financial risks, with 29.5% of respondents highly agreeing and 43.2% strongly agreeing.

The survey also revealed that, while 20.7% of respondents were unsure, 22.7% and 45.5% of respondents strongly agreed and agreed, respectively, that the bank had strong mechanisms to identify and mitigate operational risks in its daily operations. In contrast, 15.9%, 9.1%, and 6.8% of respondents disagreed and strongly disagreed, with the statement made.

Additionally, the study claimed that while 4.5% of respondents disagreed with the statement made, 18.2% of respondents were unsure, and 22.7% and 54.5% of respondents strongly agreed, respectively, that the bank encourages employees to report potential risks and provides channels for their identification.

According to the study, the bank successfully recognizes potential credit risks connected with loan portfolios for 29.5% and 52.3% of respondents, respectively, who strongly agreed with the statement. Of the respondents, 6.8% were unsure and 11.4% disagreed.

According to the results, 34.1% of respondents strongly agreed, 27.3% agreed the bank demonstrates a strong commitment to identifying and managing liquidity risks, 29.5% were unsure, and 2.3% and 6.8% of respondents disagreed and strongly disagreed with the statement made.

Finally, the survey further disputed that although 52.3% of respondents and 40.9% of respondents strongly agreed that the bank uses cutting-edge techniques and technology to identify financial market risks, 6.8% of respondents were unsure about the assertion.

The study's primary conclusions, which were supported by 92.4% and 76.1% of respondents, respectively, showed that the bank primarily has robust mechanisms to identify and mitigate operational risks in its day-to-day operations and that it has well-defined procedures and systems in place to identify potential financial risks. These factors have helped the bank improve its financial performance over the long term.

Using Pearson's correlation, the study's conclusions about the connection between financial risk identification and Centenary Bank, Mukono's financial performance were further ascertained, as indicated below;

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

Correlations

		Financial risk identification	Financial performance
Financial risk identification	Pearson Correlation	1	.663**
	Sig. (2-tailed)		.000
	N	44	44
Financial performance	Pearson Correlation	.663**	1
	Sig. (2-tailed)	.000	
	N	44	44

** . Correlation is significant at the 0.05 level (2-tailed).

Source: Primary data

According to the results displayed in the above table, Centenary Bank, Mukono's financial performance and the detection of financial risk have a substantial positive correlation. ($r = .663^{**}$, $p < .05$) confirms this link. Moreover, the p-value is less than the significance level of 0.05, indicating that the null hypothesis is accepted. This is a strong positive correlation between Centenary Bank, Mukono's financial performance and the detection of financial risk.

The results align with Shu's (2014) research, which posited that the first step towards efficient financial risk management is identification. The bank management team must

be aware of the risks that are part of their daily operations in order to properly manage credit risk. Identification of risks is related to the daily hazards that a firm faces.

Threats can come from a variety of sources, but the most significant ones are from shareholders, clients, and governmental and legislative authorities. The approach taken to detect hazards may vary based on industry norms, culture, and compliance. Ensuring that a suitable environment for credit risk is formed is paramount when it comes to risk identification.

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

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

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

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	F (%)	F (%)	F (%)	F (%)	F (%)
The bank has well-defined procedures and methodologies for assessing financial risks	15 34.1%	25 56.8%	1 2.3%	3 6.8%	00
The bank regularly reviews and updates its risk assessment processes to adapt to changing market conditions	19 43.2%	14 31.8%	10 22.7%	1 2.3%	00
The bank utilizes advanced tools and models to assess and quantify financial risks	18 40.9%	21 47.7%	2 4.5%	3 6.8%	00

The bank usually makes a thorough assessment of the key risks facing the bank and whether the bank has some strategies put in place to mitigate these risks	21 47.7%	18 40.9%	3 6.8%	2 4.5%	00
There is timely financial risk assessment conducted by the risk management team before losses are caused to the bank	13 29.5%	16 36.4%	10 22.7%	3 6.8%	2 4.5%
The bank ensures that risk assessments are conducted by knowledgeable and competent individuals	14 31.8%	22 50.0%	2 4.5%	6 13.6%	00

Source: *Primary data*

The descriptive statistics on the correlation between Centenary Bank, Mukono's financial performance and financial risk assessment are shown in Table 5. The study found that 56.8% of respondents and 34.1% of respondents strongly agreed that the bank has clear processes and methodologies in place for evaluating financial risks. Of the respondents, 2.3% were unsure, and 6.8% disagreed with the statement made.

Additionally, the study revealed that while 2.3% of respondents disagreed with the statement made, 22.7% were unsure, and 43.2% and 31.8% of respondents strongly agreed that the bank reviews and updates its risk assessment processes on a regular basis to adjust to shifting market conditions.

The study also found that, while 4.5% of respondents were unsure and 6.8% disagreed with the assertion made, 40.9% and 47.7% of respondents highly agreed and agreed, respectively, that the bank uses sophisticated tools and models to identify and quantify financial risks.

According to the findings, 47.7% of respondents strongly agreed, 40.9% agreed that the bank typically assesses its main risks thoroughly and determines whether it has put any

strategies in place to mitigate these risks, 6.8% were unsure, and 4.5% disagreed with the statement made.

In addition, the study disputed that while 29.5% of respondents strongly agreed and 36.4% of respondents agreed that the risk management team promptly assesses financial risk before losses are incurred by the bank, 22.7% of respondents were unsure, and 6.8% and 4.5% of respondents disagreed and strongly disagreed with the statement made.

Finally, the study showed that while 50% of respondents and 31.8% of respondents strongly agreed that the bank makes sure risk assessments are carried out by qualified and experienced professionals, 4.5% of respondents were unsure and 13.6% of respondents disagreed with the statement made.

The study's primary conclusions, which were supported by 90.9% and 88.1% of respondents, respectively, showed that the bank primarily has well-defined procedures and methodologies for assessing financial risks and that it regularly reviews and updates these procedures to adapt to changing market conditions. These actions have helped the bank improve its financial performance over the long term.

The results of the investigation into the connection between Centenary Bank, Mukono's financial performance and financial risk assessment were further ascertained by the application of Pearson's correlation, as illustrated below;

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

Correlations

		Financial risk assessment	Financial performance
Financial risk assessment	Pearson Correlation	1	.587**
	Sig. (2-tailed)		.000
	N	44	44
Financial performance	Pearson Correlation	.587**	1
	Sig. (2-tailed)	.000	
	N	44	44

** . Correlation is significant at the 0.05 level (2-tailed).

Source: *Primary data*

The results displayed in the above table demonstrate a strong positive correlation between Centenary Bank, Mukono's financial success and its evaluation of financial risk. The link ($r = .587^{**}$, $p < .05$) confirms this. Furthermore, we accept the null hypothesis because the p-value is less than the significance level of 0.05. This indicates that Centenary Bank, Mukono's financial performance and financial risk assessment have a strong positive correlation.

The results align with the research conducted by Bhattacharya (2011), who believes that risk analysis needs to be done correctly in the contexts in which it is intended. For example, credit risk needs to be examined in relation to cash flow simulations and predictions. This will enable financial organizations, such as banks, to properly train their workers to manage risks and execute appropriate risk measures. According to Drzik (1995), the United States' major banks have enhanced and reinforced their risk management tactics, leading to a favorable impact on their financial outcomes.

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

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

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

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

Source: *Primary data*

The descriptive statistics on the connection between Centenary Bank, Mukono's financial performance and financial monitoring are shown in Table 7. The study found that while 43.2% of respondents and 29.5% of respondents strongly agreed that the bank uses cutting-edge tools and technology to track market trends and fluctuations, 18.2% of respondents were unsure, and 9% of respondents disagreed and strongly disagreed with the assertion.

The study also claimed that the bank performs regular internal audits to evaluate the efficacy of financial monitoring procedures, with 54.5% of respondents strongly agreeing and 22.7% of respondents agreeing, respectively. Of the respondents, 18.2% were unsure and 4.5% disagreed with the statement made. The results of the study showed that, while 11.4% of respondents disagreed with the statement made, 6.8% of respondents were unsure and 29.5% of respondents strongly agreed that the bank regularly reviews and updates its financial monitoring procedures to align with emerging risks and industry best practices.

The results showed that while 2.3% and 6.8% of respondents disagreed and strongly disagreed with the statement made, 27.3% strongly agreed, 34.1% agreed, and 29.5% were unsure that the bank conducts routine and thorough reviews of financial statements to identify any anomalies or discrepancies. In conclusion, the study also raised concerns about the fact that, although 40.9% and 52.3% of respondents, respectively, strongly agreed and agreed that the bank continuously checks important financial indicators to guarantee prompt detection of potential hazards, 6.8% of respondents were unsure of the statement made.

The study's key findings, which were supported by 92.4% and 76.1% of respondents, respectively, showed that the bank primarily uses cutting-edge technology and tools to monitor market trends and fluctuations as well as actively monitors compliance with legal and regulatory requirements related to financial operations. These actions have helped

the bank improve its long-term financial performance. The study's conclusions about the connection between Centenary Bank, Mukono's financial performance and financial monitoring were further ascertained by the application of Pearson's correlation, as demonstrated below;

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

Correlations

		Financial monitoring	Financial performance
Financial monitoring	Pearson Correlation	1	.645**
	Sig. (2-tailed)		.000
	N	44	44
Financial performance	Pearson Correlation	.645**	1
	Sig. (2-tailed)	.000	
	N	44	44

** . Correlation is significant at the 0.05 level (2-tailed).

Source: *Primary data*

The findings indicated in table above shows that there is a significant positive relationship between financial monitoring and financial performance of Centenary Bank, Mukono. This relationship is affirmed by ($r = .645^{**}$, $p < .05$). It should further be noted that the p-value is below the significance level of 0.05 which means that we accept the null hypothesis. This means that there is a significant positive relationship between financial monitoring and financial performance of Centenary Bank, Mukono. This indicates that Centenary Bank, Mukono's financial performance and financial monitoring have a sizable positive association.

The results are consistent with the work of Patersson and Isaac (2014), who suggested that there are three phases of credit risk monitoring: basic risk control, estimating the probability of a default, and connecting economic capital and return. Commercial banks should establish minimum rates of return that must be met by each portfolio. Ben-Naceur and Omran (2009) also observed that bank capitalization and credit risk have a positive and significant impact on banks' net interest margin, cost efficiency, and profitability in an effort to evaluate how banking regulation affected the performance of commercial banks.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

Discussions of the findings from chapter four are covered in this chapter. It also connects these findings to related research that has been done elsewhere and disclosed by many academics. This chapter also offers suggestions for additional research as well as conclusions and recommendations based on the study's findings.

5.1 Summary of findings

The results showed that a sizable fraction of respondents (68.2%) strongly agreed or agreed that the bank has robust methods to detect and mitigate operational risks and well-defined procedures and systems to identify potential financial risks (72.7%). Additionally, a sizable portion of respondents agreed or strongly agreed that the bank effectively identifies potential credit risks associated with loan portfolios (81.8%), shows a strong commitment to identifying and managing liquidity risks (61.4%), and encourages staff to report potential risks (77.2%).

Furthermore, the findings revealed that a considerable proportion of respondents strongly agreed or agreed that the bank had well-defined procedures and methodologies for assessing financial risks (90.9%) and regularly reviewed and updated its risk assessment processes to adapt to changing market conditions (88.1%). Furthermore, 93.2% of respondents felt that the bank uses cutting-edge methods and technology to identify dangers in the financial markets. A favorable and significant association between financial risk identification and financial success was further validated by the study's statistical analysis utilizing Pearson's correlation ($r = .633^{**}$, $p < .05$). The results show, in summary, that Centenary Bank's enhanced financial performance is a result of its adept identification of financial risks.

Furthermore, a sizable portion of respondents (88.6%) strongly agreed or agreed that the bank used sophisticated tools and models to identify and quantify financial risks and that

it thoroughly assessed the main risks the bank faced and put plans in place to reduce those risks. Though a smaller percentage of respondents (65.9%) strongly agreed or agreed that the risk management team conducted a timely financial risk assessment prior to bank losses, and that risk assessments were always carried out by competent and knowledgeable individuals (82.7%), the study did highlight areas for improvement. However, a positive and significant relationship between financial risk assessment and financial performance was confirmed by the statistical analysis using Pearson's correlation ($r = .587^{**}$, $p < .05$), suggesting that improved financial performance for Centenary Bank is linked to effective financial risk assessment.

In summary, the results showed that a significant percentage of participants strongly agreed or agreed that the bank used cutting-edge technology and tools to track market trends and fluctuations (72.7%) and actively tracked adherence to legal and regulatory requirements pertaining to financial operations (68.2%).

Furthermore, a sizable portion of respondents (77.3%) strongly agreed or agreed that the bank regularly reviewed and updated its financial monitoring procedures to be in line with emerging risks and industry best practices (81.8%). The bank also conducted periodic internal audits to evaluate the efficacy of financial monitoring processes. Furthermore, most respondents (93.2%) agreed that the bank continuously monitored key financial indicators to ensure prompt detection of potential risks and that it regularly and thoroughly reviewed financial accounts to spot any irregularities or discrepancies.

Effective financial monitoring is linked to improved financial performance for Centenary Bank, according to statistical analysis using Pearson's correlation, which further confirmed a positive and significant relationship between financial performance and financial monitoring ($r = .645^{**}$, $p < .05$).

5.2 Conclusions

Using the Centenary Bank branch in Mukono as a case study, the study sought to investigate the relationship between financial risk management and the financial performance of commercial banks in Uganda. Therefore, a thorough analysis of the relationship between Centenary Bank in Mukono's financial risk identification, assessment, monitoring, and performance shows a strong positive correlation between these elements and the bank's overall financial performance.

The results show that strong mechanisms for operational risk reduction, clear processes and systems for recognizing possible financial concerns, and promotion of employee reporting all play a major role in the bank's better financial performance. Furthermore, the bank's financial performance is positively impacted by its efficient use of cutting-edge risk assessment tools and models as well as its dedication to routinely reviewing and updating risk assessment procedures.

Furthermore, there is a significant association between improved financial performance and the bank's use of cutting-edge technology to track market trends, conduct routine internal audits, and thoroughly evaluate financial statements. These results highlight the significance of proactive risk management techniques and financial oversight procedures for the long-term viability of Centenary Bank.

5.3 Recommendations

The study's conclusions led to the following recommendations being emphasized: bolster risk assessment and identification procedures: It is recommended that Centenary Bank persists in its investments and enhances its protocols for identifying and evaluating risks. The bank will be able to remain ahead of developing risks and adjust to shifting market conditions with the support of routine assessments and updates of risk detection systems, processes, and tools. More accurate risk assessments will result from ensuring that risk assessments are carried out by competent and informed persons.

Boost reporting and employee engagement: The bank should cultivate a culture that motivates staff to proactively disclose possible hazards. It will be easier to make sure that

any hazards are recognized and dealt with on time if there are defined channels and procedures for reporting risks. Programs for employee education and awareness can be put in place to make workers more risk-aware.

Maximize the effectiveness of risk mitigation strategies: Centenary Bank should concentrate on creating and putting into practice efficient risk mitigation plans, particularly with regard to credit and liquidity risk. The bank can proactively address possible problems and optimize its risk exposure by closely monitoring important financial indicators and carrying out in-depth risk assessments.

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

Strengthen internal audits and compliance: The bank should continue to place a high priority on adhering to all applicable laws and regulations pertaining to financial operations. To determine areas for improvement and evaluate the efficacy of financial monitoring procedures, regular internal audits should be carried out. The long-term prosperity and reputation of the bank will be enhanced by maintaining compliance and efficient internal control systems.

Give long-term financial sustainability priority: The bank should give long-term financial sustainability priority, even though short-term financial goals are still important. In order to keep the bank stable and resilient in the face of economic challenges, it will be necessary to strike a balance between cautious risk management and taking calculated risks.

5.4 Area for further research

The study offers a number of recommendations for more research on topics that came up during the investigation and need more investigation. This study suggests that future investigations concentrate on carrying out a comparison analysis that compares Centenary Bank's financial risk management procedures with those of other Ugandan commercial banks. This study could explore the various risk management frameworks, approaches, and instruments utilized by banks and explore the ways in which these practices impact

their individual financial outcomes. Examining the differences and similarities among banks with regard to risk identification, assessment, mitigation, and monitoring can yield important information on the best ways to maximize financial performance in the banking industry.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

FOR STAFF OF CENTENARY BANK, MUKONO BRANCH

Dear sir/madam

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

Section A. Bio Data

Please tick the most appropriate answer

1. Gender

a) Male b) Female

2. Age

a) 21-30 years b) 31-40 years

c) 41-50 years d) Above 50 years

3. Education level

a) Certificate b) Diploma

c) Degree d) Masters

e) Others specify:.....

4. Which department do you belong to?

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

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

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

Note: In the following sections, rate your degree of agreement on each statement under each objective using a scale of 5(Strongly Agree), 4(Agree), 3(Not sure), 2(Disagree) and 1(Strongly Disagree).

Section B: Financial Risk Management

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

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

Section C: Financial Performance of Centenary Bank, Mukono Branch

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

Thank you very much for your cooperation

APPENDIX 2: INTERVIEW GUIDE

FOR TOP MANAGEMENT OF CENTENARY BANK, MUKONO

Dear respondent,

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

Section A: Introductions

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

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

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

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

7. How does Centenary Bank identify and assess financial risks within its operations?
8. Can you provide examples of specific financial risks that Centenary Bank has identified and successfully mitigated?

9. How does the bank's financial risk identification process contribute to the overall financial performance of Centenary Bank, Mukono?

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

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

Thank you for your cooperation

APPENDIX 3



**UGANDA CHRISTIAN
UNIVERSITY**

A Centre of Excellence in the Heart of Africa

SCHOOL OF BUSINESS

17th july, 2024

TO WHOM IT MAY CONCERN

Name: **LENIA DOREEN**

Reg. No **S21B33/061**

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

Financial risk management and financial performance of commercial banks in Uganda. A case study of centenary bank -mukono branch

We shall be grateful if you could render assistance to 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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APPENDIX 4

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