

**OPERATIONAL RISK MANAGEMENT AND FINANCIAL PERFORMANCE IN THE
BANKING SECTOR IN UGANDA: A case study of Stanbic Bank Mukono Branch
Uganda**

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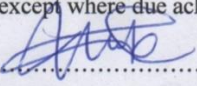


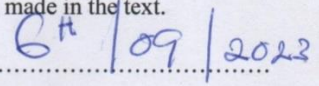
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DECLARATION

I hear declare that this submission is my own work towards the award of degree in Accounting and Finance and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

Signature.....

Date.....

OKELLO STEPHEN ALENGO

S20B33/236

APPROVAL

This is to certify that OKELLO STEPHEN ALENGO'S work and that he did it under my supervision.

This work has been produced under my supervision.

SIGNED.....

Mr. Geoffrey Kasozi

SUPERVISOR

DATE OF SUBMISSION..... 6th Sept 2023.....

DEDICATION

This report is dedicated to my family who has tirelessly and generously supported me financially and morally from childhood all through life most especially my Mum and my sisters. You have been a great source of inspiration to me. God bless you all!

ACKNOWLEDGEMENT

First and foremost, praises and thanks to God Almighty for his blessings throughout my research work. I give thanks to my supervisor Mr. Geoffrey Kasozi for his useful advice, patience, guidance, direction, counsel in seeing me through this study support and the supervision that enabled the successful completion of this report.

A special thanks to my beloved family for all the financial and moral support that they have given me, May the Almighty God reward them tremendously.

Special gratitude also goes to all my dear friends who have supported me in one way or another all through the compilation of this report and encouragement all through my student life at campus. May your lives always be as rich, warm and loving and may your income, peace, joy and satisfaction increase every day.

Also special thanks go to the Bank manager and team of Stanbic Bank for having allowed me to contact the entire employees of Stanbic Bank who heartedly responded expectedly. May almighty God reward you abundantly. It would rather be regarded nuisance to do without expressing my earnest gratitude to my contemporaries.

I thank my sisters and brothers for the financial support, the love and the positive influence towards my life am forever grateful to everyone who contributed towards the successful completion of this project. May the good lord bless you abundantly.

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ABSTRACT.

The study was about the Operational Risk Management and Financial Performance in the Banking Sector in Uganda focusing on Stanbic Bank Uganda, Mukono Branch. The study was guided by the following objectives: To examine how Stanbic Bank has identified the degree of risk to enhance liquidity, to assess how Stanbic Bank has assessed and analyzed operational risk to ensure profitability and to examine how Stanbic Bank Uganda has monitored operational risk to enhance reduction in non-performing loans.

The study used a phenomenological approach and the research strategies included experiment, survey and case study. The study population and sample size was 52 which was determined using census sampling method and this was because they were few in numbers.

The study found that the regression coefficient between two variables was significant and positive since the r results were positive. This finding suggested the rejection of the null hypothesis implying that operational risk management significantly affected financial performance in Stanbic Bank and thus an improvement in operational risk management would increase financial performance.

The results from the study revealed that there is a significant positive relationship between operational risk management and financial performance in Stanbic Bank which is represented by R^2 of 57%. The findings are consistent with the view that operational risk management is Management function that is critical for proper financial performance and the study further revealed that, the monitoring system of Stanbic Bank is weak and this has caused some loss to the Bank. The study recommended that, Management of Stanbic Bank should tighten its operational risk management systems in order to continue improving its financial performance and Stanbic Bank should regularly study and assess its opportunities to achieve its financial objectives. The Bank should also improve on its monitoring system in order to avoid some losses. The study also came up with areas for further study which includes:

- i. Internal financial controls and financial performance of Stanbic Bank.
- ii. Credit risk management and profitability of commercial Banks in Uganda
- iii. Liquidity risk management and financial performance of Stanbic Ban

CHAPTER ONE

INTRODUCTION

1.1 Introduction.

This chapter comprises of the background of the study, the statement of the problem, purpose of the study, objective of the study, research questions, and scope of the study and significance of the study.

1.2 Background to the Study.

The study is about the Operational Risk Management and Financial Performance in the Banking Sector in Uganda focusing on Stanbic Bank Uganda, Mukono Branch as a case study. The study is very important because the management of operational risk by banks is a phenomenon that is widely accepted by most banking industries worldwide. Although, Stanbic Branch Mukono Branch has almost universal embarked on upgrading its operational risk management and control system, this study assesses the effectiveness of operational risk management. This is substantiated by the fact that most of the banks are taking cognizance of the qualitative and quantitative criteria for operational risk management advocated by the Basel Committee on banking risk monitoring (2003). According to Bank of Uganda (2017), Stanbic Bank is one of the many banks in Uganda that have experienced cases of improper risk management. It portrays a true picture of what could be happening in other banking industry in the country. Operational risk is not a new risk in banking. In fact, it is that banks must manage, even before they make their first loan or execute their first trade. The very nature of banking activities requires these institutions to assume financial risks while providing innovative products to meet the needs of their clients. Institutions will continue to rely on gap management, credit scoring, and risk based capital requirements to cope with risk. Birlay (2018) asserts that financial performance is an approximation for financial success that is, the rate at which the enterprise is satisfied with the profits and growth levels attained vulnerable to be defrauded.

Every form of risk be it credit, liquidity, market has its roots in operations. The Basel II accord describes operational risk as actions r activities that result in diminishing profit either by people, processes, procedures, technology both within and outside an organization. A fundamental issue was the oversaturation of loans and mortgages at even lower rates. This encouraged borrowing

and the masses were drawn to it. When it was time to repay, the default rate was really high hereby causing the financial crisis. This is a fundamental Operational risk issue because standard procedures must be put in place before new initiatives are followed. Procedures, scenarios have to be tested to know the level of risk, the risk quotient to determine if it is within the risk appetite of the organization and to know if it is really worth taking. Different perspectives have been addressed among experts as to the root cause of the crisis. (Andersen, Maberg & Hägerwzx, 2019). Each entity is unique in the way it manages and combines technology, human resources, processes, therefore addressing Operational risk is very complex. Operational risk can take the various forms such as; errors in recording a client's data in a business transaction, incorrect figures and several others. Several arguments have been made stating that technological risk is part of operational risk while others think it's a separate entity. Recent developments in risk management by solvency II adopted a risk-based approach which encourages competence in risk management from banks and insurance companies and also promotes proper economic assessment. For example, the solvency capital requirement for both banks and re-insurance companies requires them to maintain high level of equity to enable them cope should incase significant losses arise. Financial performance looks at the results of a firm's policies and operations in monetary terms that is, a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Hillman & Keim 2001). Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Dess & Robinson, 2003). Financial performance is a situation where depositors' funds are safe in a stable banking system. The financial soundness of a financial institution may be strong or unsatisfactory varying from one bank to another (BOU, 2002). This issue of risk has gained prominence worldwide and this problem has been captured at global level and at the commercial banks level. For international settlement, mechanisms have been developed to deal with this problem through Basel II. According to Basel (2002), operational risk is the risk resulting from the inadequate or failed internal processes, people and systems or from external events. The impact of operational risk on an organization is portrayed in the form of direct financial loss, earning volatility, financial distress, and non-financial effects on the future earnings capacity of the organization. Basel II want to address this issue through requiring banks to adopt mechanisms or standards. Barings and Daiwa suggest that they were due to operation

failures (Terry, 2001). Cynthia (1997) further notes that system accidents were bound to happen. There are numerous other examples of systems failures and human errors that, much to the relief of the affected 8 banks, have not been publicized. Nevertheless, they have caused serious internal problems, raised regulatory red flags, and resulted in sleepless nights for directors and bank management. Reducing the volatility of earnings resulting from risk exposures, risk management is the only path to follow. Risk management combines an expanded view of risk and a framework that builds risk management and control into everyday banking activities, at all levels of a bank. In the case of Uganda, the financial sector has undergone several reforms geared among other things toward improvement of operational risk management. The reforms in the sector brought about the formation of the operational risk management framework which is now operational in all commercial banks including Stanbic Bank Mukono Branch Uganda Ltd. During 2014, cases of theft of over two billion of money occurred in Uganda, Equity Bank, Stanbic and Barclays Bank demonstrated the significance of taking risk seriously by implementing effective internal controls. However, Crane Bank became a victim of improper management of operational risks which led to its closure. Stanbic Bank Mukono Branch has shown the way by creating an independent unit responsible for managing operational risks. Operational Risk Manager heads the unit. This unit monitors and controls risk on daily basis. Despite of the relevant units, operational Risk manager is responsible for ensuring that the bank is not excessively exposed. This emphasizes the role of risk management. Stanbic Bank Uganda Limited is a subsidiary of Standard Chartered Bank group Limited with over 73 branches and 157 ATM's spread across the country. According to the bank's performance of 2009, Stanbic Bank made a pretax income of UGX 122.5 billion and in 2010 recorded UGX. 87.6 9 billion showing a decrease of 34.9 billion in pretax income of the bank. In regard to profit after tax, the bank realized UGX 72.1 billion showing a decreased of 24.4% from UGX. 95.3 billion. Deregulation and globalization of financial services, together with the growing sophistication of financial technology are making the activities of banks (and thus their risk profiles) more diverse and complex (Dowd, 1998). Developing banking practices suggest that risks other than credit, interest rate and market risk can be substantial (Basel, 2001). Examples of these new and growing risks faced by banks include the use of more highly automated technology which has the potential to transform manual processing errors to system failure risk. Due to highly automated technology, greater reliance is placed in globally integrated systems, there is growth

of e-commerce that brings with its potential new risks (Eg external fraud and system security issues) that are not yet fully understood (Barger, 1997). Similarly, the existence of the governance structure framework has not cubed the rampant unethical behavior by staff at the bank. Stanbic Bank faces operational, financial and strategic risks. According to the Stanbic Banks Annual report (2009), “the banks approach to risk management is based on a well-established governance process and relies on both individual responsibility and collective oversight supported by comprehensive reporting” the bank also has risk management structures in form of risk management committee of the board of directors, credit risk committee, audit committee and internal audit assurance whose primary objective is the provision of assurance to the audit committee on the quality of controls (Stanbic Bank Annual Report, 2013). As a result, Stanbic Bank Uganda put in place an operational risk management policy that is aimed at identifying, assessing, and risk assessment operational risk in 10 its banking operations. According to risk management policy (2010) of Stanbic Bank, the following are stated as the objectives to be achieved in their operations:

1. To identify operational risk,
2. To assess the degree of operational risk,
3. To analyze the operational risk,
4. To monitor the operational risk type,
5. To set up the operational risk management mechanism,
6. To carry corrective actions where necessary,
7. To provide security to clients saving through the use of appropriate risk management techniques.

1.3 Statement of the Problem.

Despite the existence of robust operational risk governance standards and policies at Stanbic Bank Mukono Branch, the bank has been experiencing continuous bank fraud and robberies for example the financial report (2015) indicated that, the bank lost over 200,000,000 Ugandan shillings through ATM robberies. The compliance report (2015) also indicated that, the level of non-performing loans arising of noncompliance with verifying procedures a loan has increased from 7% 2015 to 19% 2015 and this has greatly affected the Bank’s profitability and liquidity. This risk could be associated with poor management of operational risk. It is against this background that the study seeks to establish the contribution of operational risk management to the financial performance in the banking sector in Uganda using Stanbic Bank Uganda Mukono Branch.

1.4 Purpose of the Study.

The purpose of this study was to examine the contribution of operational risk management on the financial performance in banking sector in Uganda using Stanbic Bank Uganda as a case study.

1.5 Research Objectives.

The study was guided by the following objectives;

- i. To examine the relationship between risk identification of Stanbic bank and how it enhances liquidity.
- ii. To examine the relationship between risk assessment and profitability in Stanbic Bank Mukono branch.
- iii. To examine the relationship between operational risk monitoring and reduction in non-performing loans.
- iv. To examine the relationship between effective operational risk management and Stanbic bank's financial performance.

1.6 Research Questions.

The study was guided by the following questions:

- i. How does the process of risk identification at Stanbic bank impact its liquidity?
- ii. What is the connection between risk assessment practices and the profitability of Stanbic bank Mukono?
- iii. How does the monitoring of operational risk relate to the reduction of non-performing loans in Stanbic bank?
- iv. What is the impact of effective operational risk management on financial performance of Stanbic bank?

Hypothesis of the study

H0: There is no significant relationship between operational risk management and financial performance in Stanbic Bank Mukono Branch.

H1: There is a significant relationship between Operation Risk management and financial performance in Stanbic Bank Mukono Branch.

1.7 Time scope of the study.

The study examined the financial performance of Stanbic Bank from September 2022 to August 2023.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter represents the reviewed literature related to the concept of risk management. It is divided into literature survey, literature review and conceptual framework.

2.1 Literature survey

This sections looks at other studies done in risk management and financial performance in the banking industry in Uganda, with a view of identifying the gaps left to be filled by the current study. Kasekende (2019) carried out a study on the role of credit management in the performance of indigenous Commercial Banks in Uganda focusing on Centenary Bank as the case study. His study was guided by the following objectives; to examine how Centenary Bank has ensured that its loan portfolio is maintained within acceptable limit, to examine how Centenary Bank has ensured compliance with regulatory requirements and, to examine how Centenary Bank has solved the problem loans, including rescheduling and restructuring so as to enhanced its performance. The methodology included the use of both qualitative and quantitative tools, where by 64 questionnaires were used to answer the research questions, the results of which are presented revealed that, there is a significant positive relationship between the three variables and the performance of Centenary Bank Mukono. Basing on the results, the study recommended measures that include; formulating clear written policies and procedures which should be communicated to all employees in the bank, excellent product pricing, emphasizing on both onsite and offsite risk monitoring of borrowers, proper loan documentation through the use of pre disbursement checklists that confirm that all requirement of loan process have been satisfied before loans can 16 be approved and disbursed, This study did not consider operational risk management and financial performance which was the concern of the current study. Besides the previous study was in Centenary Bank which is completely different environment. Zimbe (2011) studied the role of internal audit function and risk management in Commercial Banks in Uganda, using Barclays Bank Uganda Limited main branch as a case study. The study administered 48 questionnaires to respondents and data were analyzed using both descriptive and inferential statistical methods under SPSS version 11. The results revealed that there is a significant positive

relationship between internal audit function and risk management in Barclays Bank Uganda Limited main branch, reflected through adoption of a strategic approach to risk management. Zimbe recommended that the function adopts the enterprise-wide risk management model rather than the traditional control based model. Zimbe did not examine the contribution of operational risk management and financial performance in commercial banks in Uganda. This study seeks to close this gap. Muwonge(2015) carried out a research on risk management and fraud elimination in Ugandans' banking sector, He used Barclays bank Jinja branch as his case study. He used SAQ where 89 respondents which comprises of 15 staff, 4 security and 70 customers of the bank. His study asserts that any consideration of an appropriate policy formulation for financial institution must begin by first by recognizing the fundamental character of financial transactions, the study also reveals that a number of frauds exist in the operation of Barclays bank Jinja branch. She recommended that to protect against such fraud, customers are encouraged to exercise care safety 17 precautions in keeping cheque book and issuing cheques. The study was silent about risk identification, assessment and monitoring and thus, the current study closed this gap.

2.2 Literature Review.

Risk management in Banks attracted several researchers; within the last few years, a number of studies have provided the discipline into the practice of risk Management within the corporate and banking industry. The following is an attempt to summarize the main conclusions of some selected studies. Al-Tamimi and Al-Mazrooei (2019) compare risk management practices and techniques in dealing with different types of risk in national and foreign banks in UAE using a questionnaire split into two parts. The first part covers the issue related to understanding risk and risk management, risk assessment and analysis, risk identification, risk assessment, risk management practices and credit risk analysis. While, the second part of the questionnaire focuses on the methods of risk identification in addition to risks faced by banks in UAE. The study shows that the most important types of risk facing the UAE commercial banks are foreign exchange risk, followed by credit risk, then operating risk. The study found also that the UAE banks are somewhat efficient in managing risk, risk identification, risk assessment and analysis are the most influencing variables in risk management practices. Finally, the results indicate that there is a significant difference between the UAE national and foreign banks in the practice of risk assessment and analysis, and in risk assessment and controlling. Al-Tamimi (2002)

examines the degree to which the UAE commercial banks use risks management techniques in dealing with different types of risk. The study found that the UAE 18 commercial banks were mainly facing credit risk. The study also indicates that inspection by branch managers and financial statement analysis were the main methods used in risk identification. The main techniques used in risk management according to this study were establishing standards, credit score, credit worthiness analysis, risk rating and collateral. Besides the study highlights the willingness of the UAE commercial banks to use the most sophisticated risk management techniques, and recommended the adoption of a conservative credit policy. Alam and Masukujjaman (2011) diagnosed the risk management practices of some selected commercial banks operating in Bangladesh. The study revealed that credit risk, market risk and operational risk are the major risks to the bankers which are managed through three layers of management system. The Board of Directors performs the responsibility of the main risk oversight, the Executive Committee monitors risk and the Audit Committee oversees all the activities of banking operations. Regarding use of risk management techniques, it is found that internal rating system and risk adjusted rate of return on capital are relatively more important techniques used by banks in Bangladesh. Al-Tamimi (2008) studied the relationship among the readiness of implementing Basel II Accord and resources needed for its implementation in UAE banks. Results of the research revealed that UAE banks are ready for the Implementation of Basel II, no significant difference was found in the level of Basel II Accord's preparation between the UAE national and foreign banks. It was concluded that there was a significant difference in the level of the UAE banks Basel II based on employee's education level. The results supported the importance of training and education level needed for the 19 implementation of Basel II Accord. The relationship between readiness and anticipated cost of implementation was also not confirmed. Marlin (2002) examines risk management practices of Islamic banks of Brunei Darussalam using a similar methodology to Al-Tamimi and Al-Mazrooei (2007). The study found that the three most important types of risk that Islamic banks in Brunei Darussalam face are the foreigntaxchange risk followed by the credit risk and then the operational risk. Concerning the most important methods used by Islamic bankers in risk identification, the results reveal that inspection by Shari'ah supervisors, executive and supervisory staff, audit and physical inspection, financial statement analysis and risk survey are the most significant factors of risk identification. The study found that the three most important types of risk that Islamic banks in

Brunei Darussalam face are the foreign exchange risk followed by the credit risk and then the operational risk. Concerning the most important methods used by Islamic bankers in risk identification, the results reveal that inspection by Shari'ah supervisors, executive and supervisory staff, audit and physical inspection, financial statement analysis and risk survey are the most significant factors of risk identification. It also finds that, Islamic banks in Brunei Darussalam are reasonably efficient in risk assessing and analysis, risk management, risk identification and less efficient in credit risk management. Ngirwa (2006) conducted a research on the risk management in Islamic banking in Pakistan. The authors use the same model suggested by Ngirwa (2006) of risk management practices. The results indicate that Islamic banks are somewhat reasonably efficient in managing risk where understanding risk and risk management risk assessment and credit risk analysis, are the most influencing variables in risk management practices. Another line of research has been focused on the comparison between the practice of risk management in Islamic banks and conventional banks. Ngirwa (2006) provided a comparative study of Bank's Risk Management of Islamic and conventional banks in the Middle East region. The study aims to identify the most important types of risk facing the Islamic banks and conventional banks in the Middle East. The multi regression model and ANOVA test prove that there is a positive relationship between risk management practices and understanding risk, risk management, risk identification, risk assessment and analysis, risk assessment, risk, and credit risk analysis in Islamic banks and Conventional banks. Tanampasidis (2008) conducted a comparative analysis on risk management practices between the Islamic and conventional banking system in Bahrain. A regression model was used to elaborate the results which showed that Pakistani banks are efficient in credit risk analysis, risk assessment and understanding the risk in the most significant variables of risk management. 21 Moreover the findings of the research revealed that there is significant difference in risk management practices of the Islamic and conventional banks of Pakistan. Theories and models Positive Accounting Theory Managers have different reasons to make accounting choices given that the markets are not perfect. Under these assumptions, there are three reasons to accept different accounting choices (Whaton, 1992). The first reason is the presence of agency costs. Management might have incentives to choose an accounting method that maximizes their compensation schemes. This has been one of the areas where a relation between the manager's incentives and their accounting choices can be seen. The second reason is related to the intention of managers in influencing the asset prices or stock

prices given the information asymmetry prevailing between managers and investors. Managers take actions toward smoothing earnings over time, to avoid losses or to try to maximize the earnings over a period.

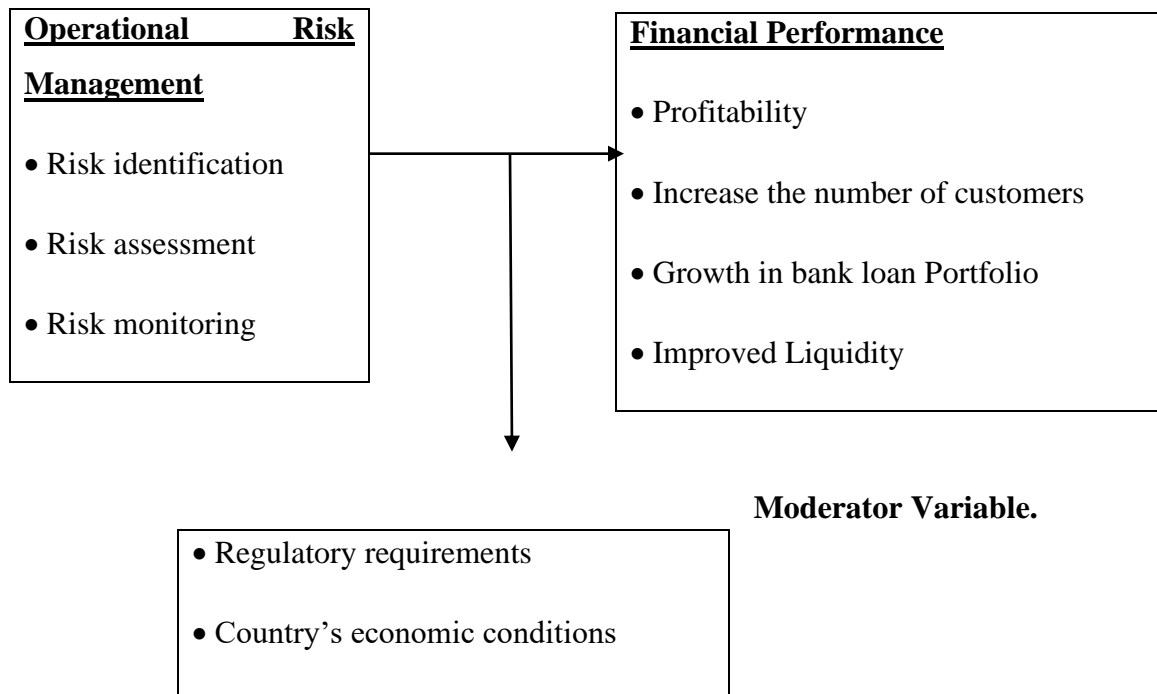
2.3 Conceptual framework.

According to Delbert (1991) conceptual framework is an assemblage set of research concepts cum variables together with their logical relationships often presented in form of diagrams, charts, graphs, pictographs, flow-charts, organ gram or mathematical equations. Linked to the problem statement, the conceptual framework “sets the stage” for presentation of the specific research question that drives the investigation being reported. It seeks to give description of the research concepts together with the variables such as the independent variables (I.V) and dependent variable (D.V) as isolated but work in a unified system of relationships.

The conceptual framework for this study is illustrated in figure 2.1.

Independent Variable.

Dependent Variable.



Source: Adopted from Colman (1994) and modified by the researcher.

The conceptual framework shows the relationship between the independent variable and the dependent variable under the study. The models predict that if staff manage risk effectively and

efficiently then their knowledge and skills will improve, and this will reduce losses, improve liquidity, growth in bank portfolio, increase number of customers in the bank and automatically will improve on the bank's financial performance with the help of strict adherence in accordance with the regulatory requirements and economic situation of the country.

2.4 Theoretical Framework.

2.4.1 Positive Accounting Theory.

Managers have different reasons to make accounting choices given that the markets are not perfect. Under these assumptions, there are three reasons to accept different accounting choices (Whaton, 1992). The first reason is the presence of agency costs. Management might have incentives to choose an accounting method that maximizes their compensation schemes. This has been one of the areas where a relation between the manager's incentives and their accounting choices can be seen. The second reason is related to the intention of managers in influencing the asset prices or stock prices given the information asymmetry prevailing between managers and investors. Managers take actions toward smoothing earnings over time, to avoid losses or to try to maximize the earnings over a period. The third reason is related to the intention of managers to influence external parties. Different accounting choices have different impact on the financial numbers, and managers expect to influence them with the information presented. The most important argument in favor is that corporate risk management creates value. In addition, accounting plays an important role reflecting the "reality" of the firm, which is in turn shown to the market through disclosure rules. On the other hand, increased market efficiency is achieved. The problem arises when those disclosure rules affect the decision-making process of risk management by providing different accounting choices. One of those options is hedge accounting; companies are allowed to take profits generated from hedging in reserve and account them in the operating income matching the operations when they occur, thereby smoothing operating profits (Whaton, 1992).

2.4.2 The Expected Utility Theory.

The expected utility of an entity is derived from the expected utility hypothesis. This hypothesis states that under uncertainty, the weighted average of all possible levels of utility will best represent the utility at any given point in time. Expected utility theory is used as a tool for

analyzing situations in which individuals must make a decision without knowing the outcomes that may result from that decision, i.e., decision making under uncertainty. These individuals will choose the action that will result in the highest expected utility, which is the sum of the products of probability and utility over all possible outcomes. The decision made will also depend on the agent's risk aversion and the utility of other agents. This theory also notes that the utility of money does not necessarily equate to the total value of money. This theory helps explain why people may take out insurance policies to cover themselves for various risks. The expected value from paying for insurance would be to lose out monetarily. The possibility of large-scale losses could lead to a serious decline in utility because of the diminishing marginal utility of wealth.

2.5 The Study Variables.

2.5.1 Banks and risks.

There are many definitions of risk. Risk can be defined as the probability of the occurrence of an adverse/negative event or incident that might leave a negative impact on the organization (yang 2011). Any decision is a risk and risks can be measured by several factors like occurrence, severity and so on. (Mazouni,2008) emphasizes that the key factors severity and the frequency of the occurrence of an event. From the above we can deduce that risks have probabilities of occurrence and there is an extent to the severity of impact of risks. Risks are uncertain conditions that if they occur, could affect the ability of an organization to achieve its goals. (Tuncel, Alpan 2010) also, (Baker teal.,2012) defines risk as an uncertainty that can be expressed in terms of probabilities. Risk can be defined as the chance of obtaining a loss as result of known or unforeseen circumstances. Also, Dominic (1993) defines risk as the volatility of potential outcomes and the outcomes could be both negative and positive. Hamberg (2000) defined risk as uncertainty about the future. As a result of passage of time a risky situation at the moment may be subject to change in the future. (Cornia, Dressel & Pfeil, 2014).Banks are in the business of taking and managing risks (Arora,2009). Banks act as intermediaries in transforming risk resulting to risk warehousing (Sinha,2012). Over the years, the activities of banks have become more complex and sophisticated 9 as a result of risk. The behavior of banks towards risk taking and aversion has a huge impact on financially and economically. Banks thrive on public confidence and as such any breach in confidence can lead so severe losses and eventual

liquidation of banks (Sinha,2012). For this reason, a sound risk management system is vital for banks to thrive.

2.5.2 TYPES OF RISK.

Risks are of various types and forms. Some are Insurable while others are un-insurable. The concept of insurability and in-insurability is determined to a large extent by a company's risk retention profile/policy. The classification of risks is based on cause and effect (Dionne,2013). Banks face various risks which can be divided into two broad categories namely; business and control risk. Business risks stem up from the day to day operations of the bank and consist of eight types of risk namely; credit, market, capital, liquidity, operational, business strategy, systemic, moral hazard. While control risks are risks that arise as a result of the inability of internal controls, management and compliance to capture lapses in operations. The three categories of risk mentioned in the Basel capital accord are credit risk, market risk and operational risk.

- **Market risk:** it is the risk of loss due to decline in assets as a result of movements in market factors and forces. Such forces include recession, political instability, interest rate and foreign exchange changes, natural disasters and terrorist attacks etc. market risks are mostly related to investment banks because they are active in capital markets. Mckinsey defined market risk as the risk of loss as a result of changes inequity prices, interest rates, 10 credit spreads, foreign exchange rates and other indicators whose values are set in a public market.

- **Credit risk:** it is the risk of a company's inability to pay its debt. It can be complete or partial. It is also the risk that a lender might not be able to repay his loans. Credit risk default can lead to loss of principal plus interest. To reduce credit risk, banks must increase interest rate for borrowers with high credit risk. Unsteady income, low credit score, employment type and availability of collateral determines the Credit risk associated with a borrower.

- **Operational risk:** Operational risk is a risk of loss occurring due to deficient or failed internal process, people and systems, or from external events. Basel committee on banking supervision (2001) defined Operational risk as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and system or firm external events. The Basel 2 directive for

banking and Solvency 2 for insurance has been established to focus on operational risk. (Chavez-Demoulin, 2006).

2.6 RISK MANAGEMENT

According to (cheng, Yip& Yueng, 2012), risk management is said to be a cycle or a road map that can be used to make detailed and informed decisions to accept a risk, eliminate the adverse effects of hazardous events or to reduce the probability of a hazardous event occurring. Risk management involves procedures, policies, actions and tools used to manage risk and make them acceptable (Alhawari et al, 2012). The institution of risk management (IRM) defines risk management as a helpful process through which organizations understand, evaluate and take 11 actions on all its risks with a view of increasing the probability of success and reducing the probability of failures. It also involves managing risk by developing diverse management strategies to avoid risks, minimize the negative effects of taking up the risks and accepting some or all of the consequences that comes with each risk.

2.6.1 RISK MANAGEMENT CONCEPT AND PRINCIPLES.

Organizations encounter risks while trying to achieve the objective, and as such they began to search for approaches to effectively manage these risks. The concept of risk management has grown over the last decade thereby becoming one of the most important management skills. At early stages, organizations focused on building strong financial approaches to withstand the negative impacts of uncertain events but now, organizations have taken a broader look towards risk management by acknowledging that risk management applies to both negative events and positive opportunities that they must take advantage of. Therefore, a proactive approach must be followed to find out possible threats, impacts of the threats and positive outcomes of taking up risks in deciding whether to take up or avoid them. Organizations exist to make profit, which cannot be attained without taking risks and the risk must be effectively controlled. To make profit, an organization must take advantage of opportunities, focus on upside risk while simultaneously reducing the volatility of earning indicators. Previous reviews show that risks were managed in silos, for example, the main focus of risk management approach in the banking sector was on credit risk, market risk, operational risk and credit risk while for insurance sector the focus was on risk of underwriting and investment functions. Many of the global reinsurers like Swiss Re, have invented a new technique to manage 12 risk called Alternative risk transfer

(ART) used to manage risk with high severity but low frequency (Culp, 2012) The introduction of solvency II directive by the European union helps insurance companies to manage their risks effectively and enforce organizations to pay more attention to managing all the risks they are exposed to. Solvency II comprises of three pillars; pillar one emphasizes on qualitative requirements, pillar two focuses on the requirements of corporate governance while pillar three emphasizes on disclosure and transparency. This directive gives insurance companies the opportunity to improve risk management skills and efficiency of internal operations.

2.6.2 RISK MANAGEMENT TOOLS

Different risks have diverse characteristics. Based on these diverse characteristics, the tools for managing the risk is determined. There are many tools used in risk management. In selecting tools for managing risk, many factors must be considered like cost, effectiveness and efficiency. (Dofrman, 2012). Example of such tools include:

- **Loss prevention:** loss prevention involves the reduction of the liabilities of an event while also reducing the magnitude of an event that does occur.
 - **Damage limitation:** damage limitation is concerned with reducing the magnitude of events that occur.
 - **Risk treatment:** this tool involves all activities to control and reduce the magnitude of risk. Also constructing risk to an acceptable level.
 - **Risk financing:** risk financing involves determining when to pay for losses and who pays it
- 13.
- **Risk tolerance:** the exposure may be tolerable thereby needing no further action being taken even if it is not tolerable, the ability to do anything about some risks might be limited.
 - **Risk transfer:** the best option for some risk is to transfer them either by re-insurance or by third party. This option is best for reducing financial risk.
 - **Risk termination:** some risk may only be treatable or contained to acceptance level by terminating the. Especially when the risks are way above the company's quota.

2.6.3 OPERATIONAL RISK.

It wasn't up until the late 90's when the Basel committee introduced Basel II that operational risk got maximum recognition. The committee identified risks from human misbehaviors such as mistakes, acts of fraud, theft which at the time were not covered by other types of risk management hence Operational risk was defined by the committee as risk incurred by inadequate or failed internal processes, people, systems or external events (Basel,2006) The modification of the definition can be used by several institutions to suit their context. Operational risk is further divided into special categories namely;

- **People Risk:** People risk cuts across various compartments such as mistakes, accidents, manipulation of markets, legal action, tax avoidance, mis-selling products, improper organization of work by employees that can lead to loss in an organization.
- **Process Risk:** Process risk a subcategory of Operational risk which involves inefficiency and ineffectiveness when carrying out business operations and activities which can lead to loss. An example of such errors can be miscalculations, omissions, addition of wrong values. That is why it is of utmost importance for financial organizations to have active control teams to check and balance on transactional activities. 14
- **System Risk:** Information technology has both good and bad sides. Amongst the various downsides is hacking, computer viruses, phishing, etc. which accumulates to losses. System risk however is dependent on people and processes. Unlike other forms of risk, system risk is not independent. (Fheili,2011). It is advisable for companies to outsource and internally regulate systems and investment in IT.
- **External Risks:** external Risks are caused by external events such as Economic factors, Political and Legal factors, Natural factors such as Disasters which are beyond the reach of the company.
- **Internal fraud;** this constitutes of losses incurred due to intentional or inappropriate acts performed by employees/ stakeholders involving breaking laws, regulations or organizational policy.
- **Damage to physical assets;** this involves losses because of intentional damage or natural disasters that affect the assets of the organization in a negative way.

- System failures; this involves the losses due to system failures.
- External fraud; this constitutes of losses related to inappropriate use of property, information breaches.
- Delivery process Management; losses related to Process Management, transaction processes, etc. Operational Risk is an integral part of Enterprise Risk management as it is well known and identified by the Banking and the Insurance Organizations.

2.7.1 PRINCIPLES FOR THE SOUND MANAGEMENT OF OPERATIONAL RISK.

The assignment of roles and responsibilities is of utmost importance and a very crucial aspect in formulating Operational risk frameworks, and as such should be coordinated carefully for adjustments. The Basel committee on bank supervision (2003) articulates expectations in relation to bank governance activities and the requirement of bank's risk management framework. The following principles are used by banks when developing and updating their risk framework and as checklist when regulators are assessing the operational risk management and capital adequacy of individual banks.

- The board of directors of the bank must ensure that there is an appropriate risk culture, an appropriate risk management framework and a clear statement of the bank's risk appetite and tolerance.
- The Top Management has the responsibility of designing and implementing the Risk strategy and as such they ought to be involved in the stages of decision making. Top management should provide adequate funds and Human resources to execute Operational Risk Management. Top management is expected to put in place policies and procedures for managing Operational risk management for all bank products, activities, processes and systems that are consistent with the board's risk appetite and tolerance.
- Risk Identification: Means of identifying operational risks must be in place for all bank activities, products, systems.
- Control and mitigation: there must be robust controls and risk mitigation and risk transfer strategies put in place for example business continuity plans must be in place should incase unpredictable and unforeseen contingencies arise.

- **Monitoring and Reporting:** Processes to monitor report operational risks profiles and material exposures are required.

- **Disclosure:** Banks are required to disclose how they manage Operational risk as well as details of risk exposures and capital requirements in their annual reports.

2.7.2 OPERATIONAL RISK LIFECYCLE.

Risk Management is very vital in every organization as it helps top management identify and integrate various plans and decisions to prevent Operational risk chaos. According to (Mazouni, 2008; Tuncel and Alpan 2010), risk management can be categorized into four cycles namely:

- Identification and Assessment of Risk.

- Treatment of Risk.

- Controlling Risk.

- **Monitoring and Reporting Risk Identification:** Financial institutions must be aware of potential risks to control and limit them. Each credit institution has internal control systems and guidelines in identifying and limiting potential risks. Through the process of identification risk sources and risk drivers a financial institution takes preventive measures in dealing with risks. PWC (2013) points out that risk identification is vital for accurate operational risk monitoring and control to take place. During the process of risk identification, financial institutions consider factors such as:

- Type of customer.

- Risk culture and tolerance of the company.

- Design, implementation and effectiveness of process and system. Using the following tools:

- Risk indicators

- Loss databases

- Risk inventory

- Scenario analysis. Coupled with external data a loss database is useful in qualifying and modeling operational risk. Risk assessment: Also known as risk inventory, it is aimed at

identifying operational risk and making decisions to either take up or avoid the risks. Every organization faces diverse form of risks and they must be effectively accessed (Andrew,1995). The main purpose of risk assessment is to identify significant operational risks and eventually evaluating the risks. They usually take the form of questionnaires, workshops and interviews. Qualitative evaluations obtained help to determine the severity of loss and help in ranking risks to identify major risks. The risk portfolio can be presented as a risk map or matrix which presents strengths, weaknesses, opportunities and threats of the organization. Risk assessment may have different orientations such as:

- Risk orientation
- Control orientation
- Process orientation
- Goal orientation.

Risk Treatment: Operational risk can be treated in many ways/such as:

- **Risk Avoidance:** it is the strategic avoidance/elimination of hazardous activities that affects an organization's assets. Risk avoidance seeks to avoid compromising/hazardous events in its entirety. That is why banks do not accept or take up every risk. Banks should avoid risks if its risk margin for activities is lower than the expected risk cost of taking all the risk.
- **Risk Mitigation:** Risk mitigation is the process by which an organization introduces measures to minimize or eliminate unacceptable risks. Banks develop mitigation strategies to intellectually reduce the severity of impact/probability of occurrence of such unacceptable risks
- **Risk sharing and Transfer:** Risk sharing, and transfer occurs if risk cannot be totally borne by a bank/ insurance company, In the sense that the risk cannot be adequately reduced, or the cost of control is higher than the cost of expected loss. Also, a risk should be shared or transferred if the risk is too high in relation to the company's risk appetite. An example of
 - risk sharing is outsourcing of activities and functions. There are cases where risks can be shared and not fully transferred.

Risk Control: involves strategies and methods through which organizations identify and evaluate potential losses while taking adequate precautions to reduce or totally eradicate such potential threats. Organizations should put in place control measures in their business processes performed by employees (Andrew,1995). Also, separate inspections by internal and external entities, supervisory board, auditors, auditors and certified public accountants acts as safeguards against the acceptance of inappropriate risks that is out of the organization's risk profile. And as such all parties involved must cooperate to avoid control gaps. 20 Companies can carry out continuous monitoring which is the process of detecting risks and compliance related issues associated with an organization's financial and operational environment. In this process, only employees should monitor the process quality and there shouldn't be any delegation of responsibilities to internal and external auditors. Schemes should also be put in place to motivate employees as well as sanctions in case of failures. They can also carry out separate inspections which can be carried out by internal/external auditors as well as supervisors. There should be regular follow ups to ensure that short comings are eliminated, and adequate recommendations are put in place. Risk reporting and monitoring: Control measures identified by organizations to mitigate risks should be implemented and the effectiveness of such measures should be monitored appropriately. Risk management procedures must be flexible to ensure that new risks are assessed and addressed as soon as possible. There should be periodic checks put in place because risk management isn't a one-time procedure but an ongoing process.

CHAPTER THREE

METHODOLOGY

3.1 Research Methodology

In this chapter, methods and measures adopted in conducting and gathering data for this study. It includes the report of the population of study, sampling techniques, sample size, sources of data, method of data collection and method of data analysis and testing hypothesis. It is to be observed that the research procedures implemented for any study is to a large extent controlled by the nature and objectives of the study. A qualitative approach has been followed in this research. Data was collected from two sources: primary and secondary sources related to the study topic. The secondary sources used during the literature review were retrieved from books, journals articles online, research and annual reports. The primary sources were gained through interviews designed by the researcher. The purpose of this research is to access the effectiveness of operational risk management.

3.2 Sampling Design.

During the research, both qualitative and quantitative data was collected. The researcher used simple random sampling to elicit quantitative data from respondents. Purposive sampling was used to collect qualitative data from the very informants.

3.3 Research design.

According to Kuthori (2006), a research design is the basic plan which was a guide to the data collection and analysis phase of the research project. The research design consists: research approach, research strategy, research duration and research classifications.

3.3.1 Research Approach.

This study used a phenomenological approach and according to Grönroos (2007), A cross sectional study is a class of research methods that involve observation of all a population, or a representative subset, at one specific point in time. The study embraced hypothesis testing and explaining using both quantitative and qualitative information.

3.3.2 Research Strategy.

Basically research strategy is a general plan of how a researcher goes about answering the research question. Therefore, research strategies include: experiment, survey and case study, so in this case the researcher employed purely case study strategy asking broad questions and collecting data from participants to find out the relationship between operational risk management and financial performance of banking sector in Uganda: A case study of Stanbic Bank Mukono Branch.

3.3.3 Research Duration.

The research duration involves: cross sectional studies which is a study of a particular phenomenon at particular point in time, therefore considered a period of one year from August 2022 to September 2023 and data was collected from within three months (May to August 2023).

3.3.4 Research Classification.

The research may be classified according to their purpose such as: exploratory, descriptive, explanatory, and multi method. So the researcher used explanatory approach to establish causal relationship between the variables.

3.4 Study Area.

The study focused on Stanbic Bank located, at Mukono Town council along Jinja Road, (19.34km from Kampala City).

3.5 Study population.

The targeted population of this study used 60 employees of Stanbic Bank as listed in the human resource manual, drawn from compliance team (4), risk team (15), loan officers (12), operations officers (10), asset and liability officers (10) and auditors (9).

3.6 Sample size.

The sample size of the study was 52 respondents. According to Krejcie & Morgan (1970) came up with a table for determining sample size for a given population for easy reference.

Table13.1: Population and sampling methods.

Category.	Population.	Sampling.	Sampling Techniques.
Compliance Team.	4	4	Census.
Risk Management Team.	11	11	Census.
Loan Officers.	10	10	Census.
Operations Officers.	10	10	Census.
Asset and Liability Officers.	8	8	Census.
Auditors.	9	9	Census.
TOTAL.	52	52	

Source Stanbic Bank, 2019.

3.6.1 Sampling methods.

The study used census sampling as the only technique and it was used because the number of respondents was very small to reach the whole population.

3.6.2 Demographic characteristics of the respondents.

This presents an analysis and interpretation of biographic information of respondents. The researcher distributed 60 questionnaires, however only 52 were filed and returned making a responsive rate of 87%. The background information focused on gender, number of years in the organization, age group, and departments in which the respondents work, and their qualifications. Details of the findings are presented in tables 3.2 through 3.5.

3.7 Methods of data.

3.7.1 Collection Methods:

The study employed both the survey method to collect primary data from respondents and documentary analysis to collect secondary data. 45 Survey: The study used the survey method to assess the starters of operational risk management and financial performance. Babbic (2005)

defines survey as a deliberate, well-planned research study of selected number or group of individuals with respect to one or more variables, carried out in such a way as to significantly reduce the error inherent in all social science research by adhering to scientific research principles and methodologies. Surveys are perceived to be excellent vehicles for measuring attitudes in a large population such as the banking industry. In a survey the researcher gathers relevant data for his / her research either via a questionnaire which are printed or in electronic format or via person-to-person interviews. This study employed both questionnaires and interview method.

3.7.2 Data collection procedure.

An introductory letter was obtained from the school of business administration Uganda Christian University signed by the dean introducing the researcher to the management of Stanbic bank Mukono Branch. Written permission was sought from the branch manager of Stanbic bank. The researcher then proceeded to distribute the questionnaire to the respondents and interviews were held with the staff from the relevant departments. The completed questionnaires were collected after four days.

3.8 Data collection instruments.

Primary data was collected using the followings instruments:

3.8.1 Self-Administered Questionnaires (SAQs).

The main data collection instrument that was employed in the study was self-administered questionnaires (Appendix I), it was filled by relevant employee of the Bank. The questionnaire comprised of statements requiring the respondents to opt for one answer out of five options using the Likert scale (1= strongly disagree; 2= Disagree, 3 = Not sure, 4= Agree and 5= Strongly Agree). SAQs was used because of the busy schedule of respondents and this gave them time to fill at their convenience.

Amin (2005) asserts that questionnaires are popular with researchers because information can be obtained fairly, easily and the questionnaire responses are easily coded. This instrument of self-administered questionnaires (SAQs) enabled the researcher to collect large volume of data at shortest period of time and these questionnaires were administered to valid respondents (employee of the bank) with consultation of their records and policies of the bank.

3.8.2 Interviews guide

Interview is a face-to-face interaction between the interviewer and interviewee about a given topic to obtain relevant facts. The interview guide (Appendix II) contained guiding questions were used during interviews with the key respondents (Risk Management team and compliance). The information obtained supplemented those obtained through the use of questionnaires. According to Mugenda (1999), interviews are advantageous in that they provide in-depth data because they give the interviewer a chance to probe and clarify questions which are clear to the interviewee and it also enables the interview to give detailed explanation about the subject under discussion.

Interviews were conducted with loans officers and operations officers in order to have deemed information about the operational risk management and financial performance of the Bank.

3.8.3 Documentary review.

This included reviewing existing literature in form publications such as textbooks, journals, Bank of Stanbic bank Mukono Branch reports, periodicals, conference proceedings, dissertations and internet to back up the primary sources.

3.9 Reliability and Validity of instrument.

3.9.1 Reliability

Reliability is the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. To ensure reliability, examination of trustworthiness is crucial. For the reliability of the instruments, Alpha coefficient with values equal or greater than 0.5 will confirm the reliability. The Cronbach's Alpha was calculated using the following formula adopted from Amin (2005):

$$\alpha = \frac{k}{k-1} \left[1 - \frac{\sum \sigma_k^2}{\sigma^2} \right]$$

where $\sum \sigma_k^2$ is the sum of variances of the K parts (usually items) of the test σ is the standard deviation of the test.

The results showed Cronbach's Alpha values for the three variables (Operational risk management and financial performance) ranges from 0.71 to 0.85. All the values were above 0.70 implying that all measures were highly reliable. Amin (2005) recommend that items in an instrument pass a reliability test when they have coefficient values of at least 0.6.

3.9.2 Validity.

Validity determines whether the researcher truly measures that which it was intended to measure or how truthful the research results are. The process of validation involved collecting and analyzing data to assess the accuracy of an instrument. For validity of the instruments, a Content Validity Index of greater or equal to 0.5 confirms that the questions taken are relevant to the study variables. This was done to build confidence that the instruments yielded good results.

3.10 Data processing.

After collecting the data, it was edited, coded and checked to have the required quality, accuracy and completeness before being entered into computer for analysis.

3.10.1 Data analysis.

Then data was analyzed using frequency table, percentage with the help Microsoft excel and word which provided descriptive outputs. Correlation analysis was carried out to establish the relationship between the variables and this was done by the help of SPSS program.

3.10.2 Ethical Considerations.

The researcher obtained consent of the potential respondents, and explained to them the purpose and nature of the research, not only to ensure that participation in the research was voluntary but also given full rights to participate. When respondents volunteered to participate in the research, they were assured of confidentiality, and the assurance of their rights to withdraw from the research especially if and when questions asked, or if the process in general tended to trigger emotional responses and affect Self- understanding As it is increasingly advocated that "People who contribute to research as participants, informants or respondents should be given information about the research findings and outcomes" (Magga 2003), the researcher discussed draft bits of findings with key informants and promised to provide them with copies of the final report of the research.

3.11 Limitations of the study.

Secrecy. The study area was perceived as sensitive because it involved matters of secret information that should have not been revealed. This was overcome by assuring the respondents of their anonymity and informing them that the study is strictly for academic purposes.

Reluctance. The study encountered a problem of reluctant respondents as most of them responded with difficulty while others refused to provide answers to set questions. The study managed to solve this problem via persuasion with a view of providing assurance to respondents in regard to utmost confidentiality.

CHAPTER FOUR

PRESENTATION, DISCUSSION AND ANALYSIS OF FINDINGS

4.0 Introduction.

This chapter reports on the findings of the study that was carried out to examine the risk identification in relation to operational risk management.

4.2 RISK IDENTIFICATION AND LIQUIDITY.

Risk identification is a crucial stage in the operational risk management process. Risk analysis is the process of identifying the different risk involved, and determining the possible outcomes of actions and /or decisions. Liquidity measures the ability of the business to meet financial obligations as they come due, without disrupting the normal, ongoing operations of the business. Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to the balance sheet (assets and liabilities) and operational liquidity refers to cash flow measures. Objective one of this study sought to examine the contribution of risk identification on liquidity at Stanbic Bank. Several questions were put to each individual respondent regarding his/her own understanding and perception of the risk identification and liquidity at Stanbic Bank. This section presents the results and interpretation of the respondents' perceptions about risk identification and financial performance. Banking Institutions in Uganda face a variety of risk from external and internal sources that need to be assessed, a precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Andrew (2020) defined risk assessment as the identification and analysis of relevant risk to achievement of the objectives, forming a basis for determining how risk should be managed. Objective two of the study set out to evaluate the influence of risk assessment on profitability at Stanbic Bank Mukono Branch. Several statements were put to the respondents through the self-administered questionnaire and interview guide to indicate their honest opinion about their understanding of the risk assessment, analysis and profitability at Stanbic Bank Mukono Branch. The results are presented in tables 4.1-4.13;

The Bank carries out comprehensive and systematic identification of its risk relating to each of its operations.

The past decade has seen dramatic losses in the banking sector. Banks that had been performing well suddenly announced large losses due to risk exposures that turned sour, interest rate positions taken, massive frauds, or derivative exposures that may or may not have been assumed to hedge balance sheet risk. In response to this, respondents were asked to state whether Stanbic Bank carries out comprehensive and systematic identification of its risk relating to each of its operations and their responses are presented in table 4.1.

Table 4.1: Stanbic Bank carries out comprehensive and systematic identification of its risk relating to each of its operations.

Response.	Frequency.	Percentage.
Strongly agree.	19	37
Agree.	10	19.2
Not sure.	5	9.6
Disagree.	8	15.3
Strongly disagree.	10	19.2
Total.	52	100.0

Source: Primary data

Table 4.1 shows that 19(37%) strongly agreed, 10(19.2%) agreed, 5(9.6%) were not sure, 8(15.3%) disagreed and 10(19.2%) strongly disagreed. The majority of the respondents 55.8% generally agreed with the statement and this means that Stanbic Bank carries out comprehensive and systematic identification of its risk relating to each of its operations. The study found out that, management of Stanbic Bank and other relevant personnel identify key risks in operations through workshops and interviews, brainstorming, use of questionnaires, and process mapping which involve identifying and mapping the core operations, processes/value chains. This is in agreement with Cynthia (2018) who argues that, identifying risk is the best way to manage operational risk in banking institutions.

Stanbic Bank identifies the potential cause of operational risk.

The respondents were asked to state whether Stanbic Bank identifies the potential cause of operational risk and the responses are contained in table 4.2.

Table 4.2: Stanbic Bank identifies the potential cause of operational risk.

Response.	Frequency.	Percentage.
Strongly agree.	15	28.8
Agree.	12	23.1
Not sure.	5	9.6
Disagree.	13	25
Strongly disagree.	7	13.5
Total.	52	100.0

Source: Primary data

Table 4.2 presents that 15(28.8%) strongly agreed, 12(23.1%) agreed, and 5(9.6%) were not sure 13(25%) disagreed and 7(13.5%) strongly disagreed. Majority of respondents 51.9% generally agreed. This implies that Stanbic Bank identifies the potential cause of operational risk. The study through interviews revealed that study risk identification is paramount for the subsequent development of viable operational risk monitoring and control. It was further revealed that, risk identification helps the Bank to meet its financial obligations as they come due, without disrupting the normal, ongoing operations of the business.

Changes in risks are recognized and identified with the bank’s rules and responsibilities.

Deonne (2018) asserts that changes in risks should be recognized and identified in time to avoid the devastating effect in the operation of banks. The respondents were asked whether changes in risks are recognized and identified with the bank’s rules and responsibilities and the responses are contained in table 4.3.

Table4.3: Changes in risks are recognized and identified with the bank’s rules and responsibilities.

Response.	Frequency.	Percentage.
Strongly agree.	33	63.5
Not sure.	8	15.4
Disagree.	6	11.5
Strongly disagree.	5	9.6
Total.	45	100.0

Source: Primary data.

Table 4.3 illustrates that 33(63.5%) strongly agreed, 8(15.4%) were not sure, 6(11.5%) disagreed and 5(9.6%) strongly disagreed. Majority of the respondents 78.8% agreed and this implies that changes in risks are recognized and identified with the bank’s rules and responsibilities. The study found out that effective risk identification at Stanbic Bank considers both internal factors such as the complexity of the bank’s structure, the nature of the bank’s activities, the quality of personnel organizational changes and employee turnover and external factors such as changes in the industry and technological advances and how these could adversely affect the achievement of the liquidity objectives of the Bank.

Rower (2017) explains that when changes in the risks are recognized and identified, then appropriate strategies can be designed to mitigate the effect which would otherwise cause a financial loss to the bank arising from non-performing loans.

Stanbic Bank is aware of the strengths and weaknesses of the risk management systems by the financial institutions Act 2004.

The study asked respondents to state whether Stanbic Bank is aware of the strengths and weaknesses of the risk management systems of the other banks and the responses are contained in table 4.4.

Table 4.4: The Bank is aware of the strengths and weaknesses of the risk management systems required by the Financial Institution Act 2004.

Response.	Frequency.	Percentage.
Strongly agree	17	32.7
Agree.	4	7.7
Not sure.	9	17.3
Disagree.	4	7.6
Strongly disagree.	18	34.6
Total.	52	100.0

Source: Primary data

The table 4.4 shows that 17(32.7%) strongly agreed, 4(7.7%) agreed, 9(17.3%) were not sure, 4(7.6%) disagreed and 18(34.6%) strongly disagreed that the Bank is aware of the strengths and weaknesses of the risk management systems required by the financial institution Act 2004. Majority of the respondents disagreed with the statement and this implies that Stanbic Bank is not aware of the strengths and weaknesses of the risk management systems of the other banks and this has damaged the credibility of the bank, raising costs of deposits and forcing the bank to maintain high levels of excess liquidity in order for the bank to run.

Stanbic Bank has developed and applied procedures for the systematic identification of investment.

There are several processes commonly used by banks to help them identify and assess operational risk and therefore, the study asked respondents to state whether Stanbic Bank has developed and applied procedures for the systematic identification of investment and their responses are contained in table 4.5.

Table 4.5: Stanbic Bank has developed and applied procedures for the systematic identification of investment.

Response.	Frequency.	Percentage.
Strongly agree.	15	28.8
Agree.	17	32.7
Not sure.	6	11.5
Disagree.	7	13.4
Strongly disagree.	7	13.4
Total.	52	100.0

Source: Primary data.

Table 4.5 shows that 15(28.8%) strongly agreed, 17(32.7%) agreed, 6(11.5%) were not sure, 7(13.4%) disagreed and 7(13.4%) strongly disagreed. Majority of the respondents 61.5% generally agreed and this implies that Stanbic Bank has developed and applied procedures for the systematic identification of investment.

Stanbic Bank quantifies operational risk through estimation of losses.

The respondents were asked whether Stanbic Bank quantifies operational risk through estimation of losses and the responses are contained in table 4.6.

Table 4.6: Stanbic Bank quantifies operational risk through estimation of losses.

Response.	Frequency.	Percentage.
Strongly agree.	19	37.8
Agree.	11	20.6
Not sure.	10	17.2
Disagree.	12	24.4
Total.	52	100.0

Source: Primary data

From table 4.6, 19(37.8%) strongly agreed, 11(20.6%) agreed, 10(17.2%) were not sure and 12(24.4%) disagreed. Majority of the respondents agreed with the statement and this implies that Stanbic Bank quantifies operational risk through estimation of losses. Also PWC (1997) states that when Banks fail to estimate the potential loss, they directly or indirectly incur losses resulting from inadequate internal processes, people and systems.

Stanbic Bank assesses the likelihood of occurring risk on a timely basis.

Once risks have been identified, an assessment of possible impact and corresponding likelihood of occurrence have to be done and therefore, respondents were asked to state whether Stanbic Bank assesses the likelihood of occurring risk on a timely basis and the responses are contained in table 4.7.

Table 4.7: Stanbic Bank assesses the likelihood of occurring risk on a timely basis.

Response.	Frequency.	Percentage.
Strongly.	15	28.9
Agree.	16	31.1
Not sure.	4	6.7
Disagree.	11	22.2
Strongly disagree.	6	11.1
Total.	52	100.0

Source: Primary data.

The table 4.7 shows that 15(28.9%) strongly agreed, 16(31.1%) agreed, 4(6.7%) were not sure, 11(22.2%) disagreed and 6(11.1%) strongly disagreed. The majority of the respondents agreed and this implies that Stanbic Bank assesses the likelihood of occurring risk on a timely basis. The study found out that in the planning stage, the management of Stanbic Bank agrees on the most appropriate definition and number of categories to be used when assessing both likelihood and impact.

Stanbic Bank assess risk using appropriate quantitative analysis methods.

Once the source of risk has been identified and assessed, banking institutions must begin to measure the risks especially using the quantitative analysis methods which at time become quite a challenge to some institutions. Therefore, the respondents were asked to state whether Stanbic Bank assess risk using appropriate quantitative analysis methods and their responses are contained in table 4.8.

Table 4.8: Stanbic Bank assess risk using appropriate quantitative analysis methods.

Response.	Frequency.	Percentage.
Strongly agree.	20	40
Agree.	12	22.2
Not sure.	7	13.3
Disagree.	8	15.6
Strongly disagree.	5	8.9
Total.	52	100.0

Table 4.8: All lending decisions are processed using a detailed risk analysis. The table 4.8 shows that 20(40%) strongly agreed, 12(22%) agreed, 7(13.3%) were not sure, 8(15.6%) disagreed and 5(8.9%) strongly disagreed. The majority of the respondents agreed with the statement. This implies that Stanbic Bank assesses risk using appropriate quantitative analysis methods. The researcher through interviews with the Bank manager of Stanbic Bank, said that “Standard deviation is one of the measures used to assess risk at Stanbic Bank”. The study also discovered that covariance of analysis is a more refined measure of assessing risk at Stanbic Bank.

All lending decisions are processed using a detailed risk analysis.

The respondents were asked to state whether all lending decisions are processed by a detailed analysis of risk and their responses are contained in table 4.9.

Table 4.9: All lending decisions are processed using a detailed risk analysis.

Response.	Frequency.	Percentage.
Strongly agree.	24	48.9
Agree.	7	13.3
Not sure.	6	11.1
Disagree.	6	11.1
Strongly disagree.	9	15.6
Total	52	100.0

Source: Primary data.

Table 4.9 shows that most respondents 24(48.9%) strongly agreed 7(13.3%) agreed, 6(11.1%) were not sure 6(11.1%) responds disagreed and 9(15.6%) strongly disagreed. Majority of the respondents agreed and this implies that all lending decisions are processed using a detailed risk analysis. It was revealed that, management at Stanbic Bank first assesses the client before he/she is given a loan and some of the considerations are collateral security and connectivity of the client. This helps to determine whether such a loan should be processed or not.

Stanbic Bank assess risk using appropriate qualitative analysis methods.

Some of the non-market risks faced by banking institutions such as reputation risk, compliance risk may be difficult to measure and therefore, the respondents were asked to state whether Stanbic Bank assess risk using appropriate qualitative analysis methods and the responses are contained in table 4.10.

Table 4.10: Stanbic Bank assess risk using appropriate qualitative analysis methods.

Response.	Frequency.	Percentage.
Strongly agree.	22	44.5
Agree.	10	20
Not sure.	4	4.4
Disagree.	7	13.3
Strongly disagree.	9	17.8
Total.	52	100.0

Source: Primary data.

Table 4.10 reveals that, 22(44.5%) strongly agreed, 10(20%) agreed, those who were not sure were represented by 4(4.4%), 7(13.3%) disagreed whereas 9(17.8%) strongly disagreed. Majority of the respondents agreed and this means that Stanbic Bank assesses risk using appropriate qualitative analysis methods. The study revealed that, non-market risks are also very crucial to the firm's profitability and must be tracked. In response to this, Stanbic Bank carries out interviews with potential clients. It also requests people to come with personal information documented information such as LCI recommendation letters and national identity cards. It was revealed that, Stanbic Bank ensures that controls and policies are followed. This determines the level of severity and this goes through the process flows, self –assessment programs, and audit programs.

Stanbic Bank regularly studies and assesses its opportunities to achieve objectives.

Respondents were asked to state whether Stanbic Bank regularly studies and assesses its opportunities to achieve objectives and their responses are presented in table 4.11.

Table 4.11: Stanbic Bank regularly studies and assesses its opportunities to achieve objectives.

Response.	Frequency.	Percentage.
Strongly agree.	5	8.9
Agree.	8	15.6
Not sure.	4	4.4
Disagree.	7	13.3
Strongly disagree.	28	57.8
Total.	52	100.0

Source: Primary data.

Table 4.11 shows that 5(8.9%) strongly agreed, 8(15.6%) agreed, 4(4.4%) were not sure, 7(13.1%) disagreed and 28(57.1%) strongly disagreed. Most of the respondents thus disagreed with the statement and this means that Stanbic Bank regularly studies and assesses its opportunities to achieve objectives. The study discovered that, the bank carries out the selection of alternate mitigation strategy such as insurance, for identified risks. The study through interviews further revealed that Stanbic Bank used a combination of financial and non-financial measures, risk indicators, escalation triggers and economic capital to determine current risk levels and progress towards goals, reporting information for management to increase awareness and prioritize resources and this acts as a deter for operational risks. The Bank manager told the researcher that “an operational risk management committee is established to heighten the awareness and prioritize resources in relation to other risk related functions which include compliance and human resources”.

Borrowers line of business records are assessed before approval of a loan.

Table 4.12: Borrowers line of business records are assessed before approval of a loan.

Response.	Frequency.	Percentage.
Strongly agree.	16	31.1
Agree.	12	24.4
Not sure.	4	6.7
Disagree.	14	26.7
Strongly disagree.	6	11.1
Total.	52	100.0

Source: Primary data.

The table 4.12 shows that 16(31.1%) strongly agreed, 12(24.4%) agreed, and 4(6.7%) were not sure, 14 (26.7) disagreed and 6(11.1%) strongly disagree. Majority of the respondents indicated that borrowers' line of business records are assessed before approval of a loan and this helps to determine the clients with good repayment character by assessing his/her payment records.

Stanbic Bank pay much attention to customer vetting.

Respondents were asked to state whether Stanbic Bank pay much attention to customer vetting and the responses are contained in table 4.13.

Table 4.13: Stanbic Bank pays much attention to customer vetting.

Response.	Frequency.	Percentage.
Strongly agree.	31	64.4
Not sure.	9	15.6
Disagree.	7	11.1
Strongly agree.	5	8.9
Total.	52	100.0

Source: Primary data.

Table 4.13 shows that 31(64.4%) strongly agreed, 9(15.6%) were not sure, 5(11.1%) disagreed and 5(8.9%) strongly agreed. Most of the respondents strongly agreed and this implies that, Stanbic Bank pays much attention to customer vetting and helps to determine the trustworthy client's, person who will pay back his/her obligations.

Hypothesis Testing.

The reviewed literature on objective one suggested a positive relationship between risk identification and financial performance. In order to confirm the nature of relationship a correlation, regression. Anova and coefficients analyses were performed on the cleaned data. The results are summarized in table 4.14 - 4.17 that follows:

Table 4.14: Correlation Analysis matrix.

	Risk identification.	Liquidity.
Pearson	1	.227*
Correlation		
Risk identification sig. (2-tailed)		.066
N	52	52
Pearson	.630*	1
Correlation		
Financial performance		
Sig. (2 – tailed)	.066	
N	52	52

. Correlation is significant at the 0.05 level (2-tailed). The correlation coefficient result revealed a positive significant relationship between risk identification and Liquidity ($r=0.630^$, $p<0.05$). This result supports the hypothesis raised in line with objective one.

Regression Analysis.

Regression analysis result was generated to establish the extent to which risk identification ensures liquidity at Stanbic Bank. A linear regression analysis was performed on the two variables and the results are presented in the summary model below:

Table 4.15: Regression Analysis Model Summary.

Model	R	R square	Adjusted R square.	Std. Error of the estimate.
1	.849	.721	.705	.499

a. Predictors: (Constant), Liquidity

Findings in the regression model summarized in table 4.15 indicate that risk identification explained up to 42% of the variance in Liquidity (Adjusted R Square= 0.721). This implies that risk identification if effectively designed and implemented have the capacity to strongly influence the Liquidity at Stanbic Bank.

Table 4.16: ANOVA Test Result.

Model	Sum of squares	Df	Mean square	F	Sig.
1 Regression	6.328	3	2.109	23.466	.000
Residual	8.270	92	.090		
Total	14.599	95			

a. Dependent Variable: Risk identification.

b. Predictors: (Constant), Liquidity.

According to the ANOVA test results in table 4.16, it was revealed that risk identification is significant in enhancing Liquidity (F=23.466, P=0.05).

Table 4.17: Coefficients.

Model	Unstandardized Coefficients.		Standardized Coefficients.	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.043	.983		2.078	.040
1 Risk identification.	.528	.234	.630	2.259	.026

a. Dependent Variable: Liquidity.

According to table 4.17 above, it is proved that risk identification significantly influences risk identification which is established as (Beta value=0.630, t=2.259, P<0.05). Risk identification is believed to cause positive change that improves the overall Liquidity at Stanbic Bank. Based on multiple linear regression model, the study sought to establish the effect of risk identification on Liquidity. The following hypothesis was therefore tested:

H0: Risk identification does not affect liquidity at Stanbic Bank.

H1: Risk identification affects liquidity at Stanbic Bank.

The study found that risk identification explained a significant proportion of variance in liquidity, R²= .415, F (23, 466) = 23.5, p<0.05.

4.3 RISK ASSESSMENT AND PROFITABILITY IN STANBIC BANK.

Risk assessment is part of the operational risk management process that entails a comparison of the actual risk levels with the levels permissible under the -bank's operational risk management guidelines. Thus, the bank's risk level would be continuously monitored to ensure that it remains within the acceptable range. Objective three of this study set out to establish the relationship between risk assessment and reduction in non-performing loans at Stanbic Bank. Questionnaire and interview data was obtained from the respondents and analyzed. The findings in regard to this objective are summarized as follows:

Risk assessment the effectiveness of risks is an integral part of routing management reporting in Stanbic Bank.

Banking institutions monitors other risk limits to ensure that their levels are consistent with established policies and therefore respondents were asked to state whether risk assessment the effectiveness of risk management is an integral part of routing management reporting in Stanbic Bank and their responses are contained in table 4.18

Table 4.18: Risk assessment the effectiveness of risks is an integral part of routing management reporting in Stanbic Bank.

Response.	Frequency.	Percentage.
Strongly Agree.	20	40
Agree	10	20
Not sure	5	8.9
Disagree	8	13.3
Strongly disagree	9	17.8
Total	52	100.0

Source: Primary data

From table 4.18, 20(40.0%) strongly agreed, 10(20%) agreed, those who were not sure were presented by 5(8.9%), 8(13.3%) disagreed whereas 9(17.8%) strongly disagreed. The majority of the respondents agreed which means that risk assessment the effectiveness of risks is an integral

part of routing management reporting in Stanbic Bank. The study found out that it is critical at Stanbic Bank for the risk assessment system provides immediate feedback to the management when actual risk levels depart from acceptable risk levels.

The level of control is appropriate for the risk Stanbic Bank faces.

Control activities are the policies and procedures that help to ensure that management directives are carried out and therefore the respondents were asked to state whether the level of control is appropriate for the risk Stanbic Bank faces and their responses are contained in table 4.19

Table 4.19: The level of control is appropriate for the risk Stanbic Bank faces.

Response	Frequency	Percentage
Strongly agree	20	40
Agree	13	26.6
Not sure	6	8.9
Disagree	8	15.6
Strongly disagree	5	8.9
Total	52	100.0

Source: Primary data.

The table 4.19 shows that 20(40%) strongly agreed, 13(26.6%) agreed, 6(8.9%) were not sure, 8(15.6%) disagreed and 5(8.9%) strongly disagreed. The majority of the respondents agreed with the statement and this implies that the level of control is appropriate for the risk Stanbic Bank faces. The study revealed that the level of control is appropriate it helps to ensure that necessary actions are taken to address risks to the achievement of the bank’s objectives. Respondents told the researcher that control activities occur throughout the bank at all levels and in all functions and this has helped to minimize the occurrence of operational risk.

Stanbic Bank carries out loan reviews.

The study asked respondents to state whether Stanbic Bank carries out loan reviews and their responses are contained in table 4.20

Table 4.20: Stanbic Bank carries out loan reviews.

Response	Frequency	Percentage
Strongly agree	22	44.4
Agree	10	17.8
Not sure	6	11.1
Disagree	6	11.1
Strongly disagree	8	15.6
Total	52	100.0

Source: Primary data.

From table 4.20 above, most respondents 22(44.4%) strongly agreed 10(17.8%) agreed, 6(11.1%) were not sure 6(11.1%) responds disagreed and 8(15.6%) strongly disagreed. Majority of the respondents agreed and this implies that Stanbic Bank carries out loan reviews.

Communication process within Stanbic Bank adequately supports effective management of risk.

From table 5.3 above, most respondents 22(44.4%) strongly agreed 10(17.8%) agreed, 6(11.1%) were not sure 6(11.1%) responds disagreed and 8(15.6%) strongly disagreed. Majority of the respondents agreed and this implies that Stanbic Bank carries out loan reviews.

Table 4.21: Communication process within Stanbic Bank adequately supports effective management of risk.

Response	Frequency	Percentage
Strongly agree	22	44.4
Agree	8	15.5
Not sure	4	4.5
Disagree	9	17.8
Strongly disagree	9	17.8
Total	52	100.0

Source: Primary data.

From table 4.21, 22(44.4%) strongly agreed, 8(15.5%) agreed, those who were not sure were presented by 4(4.5%), 9(17.8%) disagreed whereas 9(17.8%) strongly disagreed. The majority of the respondents agreed with statement and this means that Communication process within Stanbic Bank adequately supports effective management of risk. The study revealed that risk assessment of the bank’s risk always provides to management with red flags whenever the risk levels are beyond those permitted as specified in the operational risk management guidelines and corrective measures are normally undertaken to ensure that the risks are brought back in line with the guideline. And this depends on the strength of the bank’s communication and reporting systems.

Stanbic Bank response to risk includes action plans for implementing decision.

The respondents were asked to state whether Stanbic Bank response to risk includes action plans for implementing decision and employers and their responses are presented in table 4.22

Table 4.22: Stanbic Bank response to risk includes action plans for implementing decision.

Response	Frequency	Percentage
Strongly agree	28	57.8
Agree	8	15.6
Not sure	4	4.4
Disagree	7	13.3
Strongly disagree	5	8.9
Total	52	100.0

Source: Primary data

The table 4.22 shows that 28(57.1%) strongly agreed, 8(15.6%) agreed, 4(4.4%) were not sure, 7(13.1%) disagreed and 5(8.9%) strongly disagreed. Most of the respondents agreed with the statement and this means that Stanbic Bank response to risk includes action plans for implementing decision.

The worrying signals arising out assessment are taken serious by the compliance manager. The respondents were asked whether the worrying signals arising out assessment are taken serious by the compliance manager and the responses are contained in table 4.23

Table 4.23: The worrying signals arising out assessment are taken serious by the compliance manager.

Response	Frequency	Percentage
Strongly agree	15	28.9
Agree	10	20
Not sure	6	11.1
Disagree	14	26.7
Strongly disagree	7	13.3
Total	52	100.0

Source: Primary data.

The table 4.23 shows that 15(28.9%) strongly agreed, 10(20%) agreed, and 6(11.1%) were not sure, 14(26.7%) disagreed and 7(13.3%) strongly disagreed. This implies that the worrying signals arising out assessment are taken serious by the compliance manager.

Stanbic Bank has built a data base for defaulting customers.

The reason why many banks fail is defaulting customers and therefore, respondents were asked to state whether Stanbic Bank has built a data base for defaulting customers and the responses are contained in table 4.24.

Table 4.24: Stanbic Bank has built a data base for defaulting customers.

Response	Frequency	Percentage
Strongly agree	31	64.4
Not sure	8	15.6
Disagree	7	11.1
Strongly disagree	6	8.9
Total	52	100.0

Source: Primary data.

The table 4.24 shows that 31(64.4%) strongly agreed, 8(15.6%) were not sure, 7(11.1%) disagreed and 6(8.9%) strongly disagreed. Most of the respondents agreed and this implies that Stanbic Bank has built a data base for defaulting customers. The study found out management of Stanbic Bank has expanded its approach to shareholder value by integrating a dynamic concept of risk into its existing focus on growth and return.

Exposure ceiling is observed for each of the clients.

The study asked respondents to state whether exposure ceiling is observed for each of the clients and the responses are contained in table 4.25

Table 4.25: Exposure ceiling is observed for each of the clients.

Response	Frequency	Percentage
Strongly agree	5	6.7
Agree	5	6.7
Not sure	9	17.8
Disagree	16	33.3
Strongly disagree	17	33.5
Total	52	100.0

Source: Primary data.

The table 4.25 shows that 5(6.7%) strongly agreed, 5(6.7%) agreed, 9(17.8%) were not sure, 16(33.3%) disagreed and 17(35.5%) strongly disagreed. Majority of the respondents disagreed with the statement and this implies that exposure ceiling is observed for each of the clients. The study through interviews also found out that the management of Stanbic Bank has closely linked the operational risk management, achievement of corporate goals and reduced volatility of outcomes to drive financial performance.

Stanbic Bank Mukono Branch trucks the non-performing loans every year.

The study asked respondents were to state whether Stanbic Bank trucks the non-performing loans every year and the responses are contained in table 4.26

Table 4.26: Stanbic Bank trucks the non-performing loans every year.

Response	Frequency	Percentage
Strongly agree	20	40
Agree	12	22.2
Not sure	6	11.2
Disagree	7	13.3
Strongly disagree	7	13.3
Total	52	100.0

Source: Primary data.

The table 4.26 shows that 20(40%) strongly agreed, 12(33.3%) agreed, 6(11.2%) were not sure, 7(13.3%) disagreed and 7(13.3%) strongly disagreed. Majority of the respondents agreed and this implies that Stanbic Bank trucks the non-performing loans every year.

Hypothesis Testing.

In order to examine the nature of relationship between risk assessment and performance, correlation, regression, Anova and coefficients tests were performed on the data collected. The results are summarized in the proceeding tables 4.27- 4.30

Table 4.27 Correlation Analysis Matrix.

		Risk assessment	Reduction in non-performing loans
Risk	Pearson	1	0.587**
	Correlation		0.000
Assessment	N	52	52
	Pearson	0.587**	1
correlation		0.000	
Performance	Sig. (2 tailed)	52	52
	N		

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

The correlation result revealed a positive significant relationship between risk assessment and performance ($r = 0.754^{**}$, $p < 0.05$). This implies that risk assessment has the capacity to improve on the profitability. It is suggested that utilizing risk assessment results into performance.

Regression Analysis.

Regression analysis was performed in order to establish the extent to which risk assessment explained the degree of variance in profitability. The result obtained is presented in the model summary table that follows:

Table 4.28 Regression Analysis Model Summary.

Model	R	R square	Adjusted square	Std Error estimate
1	0.587	0.345	0.568	0.47784

a. Predictors: (Constant), risk assessment

The regression analysis result in table 5.11 revealed that risk assessment contributes up to 56.3% to profitability in Stanbic Bank (Adjusted R square= 0.568, SEE = 0.47784). This means the

remaining percentage (43.7%) is contributed by other factors. It also implies that when risk assessment is utilized, reduction in performance will also be achieved.

ANOVA Analysis.

ANOVA analysis was performed to test the hypothesis that risk assessment significantly relates with performance. The results are summarized in table 4.29 below:

Table 4.29: Analysis of Variance.

Model	Sum of squares	Df	Mean square	Sig.
Regression	28.499	1	28.499	0.000
1 Residual	21.691	95	0.228	
Total	50.190	96	F	
			124.812	

a. Dependent Variable: Profitability

b. Predictors: (Constant), risk assessment

According to the ANOVA test results in the table 5.12, it is revealed that risk assessment significantly enhances profitability (F=124.81, P<0.05). This implies that best practices risk assessment has the capacity of influencing profitability in Stanbic Bank.

Table 4.30 Coefficient Test Result.

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std.error	Beta		
(Constant)	0.190	0.287		0.663	0.509
1 Risk assessment.	0.838	0.075	0.754	11.172	0.000

a. Dependent Variable: Performance

In table 4.20, the coefficient test result show that risk assessment significantly influences profitability as reflected with beta value=0.754, $t=0.663$, $P<0.05$). This implies that the implementation of risk assessment will have a positive impact on the profitability in Stanbic Bank.

4.3 RISK MONITORING TO ENSURE REDUCTION IN NON-PERFORMING LOANS.

Risk management has enabled Stanbic Bank to increase its profitability.

The study asked respondents to state whether Risk management has enabled Stanbic Bank to increase its profitability and the responses are contained in table 4.31

Table 4.31: Risk management has enabled Stanbic Bank to increase its profitability.

Response	Frequency	Percentage
Strongly agree	12	22.2
Agree	18	35.6
Disagree	12	22.2
Strongly disagree	10	20
Total	52	100.0

Source: Primary data

Table 4.31, presents that 12 (22.2%) strongly agreed, 18(35.6%) agreed whereas 12(22.2%) disagreed and 10(20%) strongly disagreed. Majority of the respondents agreed and this implies that Risk management has enabled Stanbic Bank to increase its profitability.

Risk management has helped Stanbic Bank to improve its insolvency.

The study asked respondents to state whether Risk management has helped Stanbic Bank to improve its insolvency and their responses are contained in table 4.32.

Table 4.32: Risk management has helped Stanbic Bank to improve its insolvency.

Response	Frequency	Percentage
Strongly agree	12	22.2
Agree	20	40
Not sure	4	6.7
Disagree	10	20
Strongly disagree	6	11.1
Total	52	100.0

Source: Primary data

Results in table 4.32 indicates that 12 (22.2%) strongly agreed, 20 (42.2%) agreed and 4(6.7%) were not sure, 10 (20%) Disagreed and 6(11.1%) strongly disagreed. Majority of the respondents agreed and this implies that Risk management has helped Stanbic Bank to improve its insolvency.

Stanbic Bank has adequately improved its overall Profitability in the past five year.

The study asked respondents to state whether Stanbic Bank has adequately improved its overall Profitability in the past five years and the responses are contained in table 4.33

Table 4.33: Stanbic Bank has adequately improved its overall Profitability in the past five years.

Response	Frequency	Percentage
Strongly agree	20	37.8
Agree	13	24.4
Not sure	9	17.8
Disagree	10	20
Total	52	100.0

Source: Primary data.

From the table 4.33, 120(37.8%) strongly agreed, 123(24.4%) agreed, 9(17.8%) were not sure and 10(20%) disagreed. Majority of the respondents agreed with the statement that and this implies that Stanbic Bank has adequately improved its overall Profitability in the past five years.

The emphasis on continuous review and evaluation of risk helped to improve performance in Stanbic Bank.

The respondents were asked whether the emphasis on continuous review and evaluation of risk helped to improve performance in Stanbic Bank and the responses are contained in table 4.34

Table 4.34: The emphasis on continuous review and evaluation of risk helped to improve performance in Stanbic Bank.

Response	Frequency	Percentage
Strongly agree	15	28.9
Agree	12	24.4
Not sure	4	6.7
Disagree	14	26.7
Strongly disagree	7	13.3
Total	52	100.0

Source: Primary data.

The table 4.34 shows that 15(28.9%) strongly agreed, 12(24.4%) agreed, and 4(6.7%) were not sure, 14(26.7) disagreed and 7(13.3%) strongly disagree. This implies that the emphasis on continuous review and evaluation of risk helped to improve performance in Stanbic Bank.

Risk management has enabled Stanbic Bank Mukono Branch to minimize the level losses.

The study asked to state whether Risk management has enabled Stanbic Bank to minimize the level losses and the responses are contained in table 4.35.

Table4.35: Risk management has enabled Stanbic Bank to minimize the level losses.

Response	Frequency	Percentage
Strongly agree	31	64.4
Not sure	9	15.6
Disagree	7	11.1
Strongly disagree	5	8.9
Total	52	100.0

Source: Primary data (2017)

Table 4.35 shows that 31(64.4%) strongly agreed, 9(15.6%) were not sure, 7(11.1%) disagreed and 5(8.9%) strongly agreed. Most of the respondents agreed and this implies that Risk management has enabled Stanbic Bank to minimize the level losses.

Risk management has helped Stanbic Bank to improve its liquidity.

The respondents were asked to state whether Risk management has helped Stanbic Bank to improve its liquidity and the responses are contained in table 4.36

Table 4.36: Risk management has helped Stanbic Bank to improve its liquidity.

Response	Frequency	Percentage
Strongly agree	4	6.7
Agree	4	6.7
Not sure	9	17.8
Disagree	17	33.3
Strongly disagree	18	35.5
Total	52	100.0

Source: Primary data (2019)

The table 4.36 reveals that 4(6.7%) strongly agreed, 4(6.7%) agreed, 9(17.8%) were not sure, 17(33.3%) disagreed and 18(35.5%) strongly disagreed. Majority of the respondents disagreed with the statement and this implies that, Risk management has helped Stanbic Bank to improve its liquidity.

Stanbic Bank has been registering low level of non-performing loans.

The respondents were asked to state whether Stanbic Bank has been registering low level of non-performing loans and the responses are contained in table 4.37

Table 4.37: Stanbic Bank has been registering low level of non-performing loans.

Response	Frequency	Percentage
Strongly agree	4	6.7
Agree	4	6.7
Not sure	9	17.8
Disagree	17	33.3
Strongly disagree	18	35.5
Total	52	100.0

Source: Primary data

The table 4.37 reveals that 4(6.7%) strongly agreed, 4(6.7%) agreed, 9(17.8%) were not sure, 17(33.3%) disagreed and 18(35.5%) strongly disagreed. Majority of the respondents disagreed with the statement and this means that Stanbic Bank has been registering low level of non-performing loans.

There has been an incredible growth in earnings in this year in Stanbic Bank.

The respondents were asked whether there has been an incredible growth in earnings in this year in Stanbic Bank and the responses are contained in table 4.38.

Table 4.38: There has been an incredible growth in earnings in this year in Stanbic Bank.

Response	Frequency	Percentage
Strongly agree	15	28.9
Agree	17	33.3
Not sure	6	11.2
Disagree	7	13.3
Strongly disagree	7	13.3
Total	52	100.0

Source: Primary data

The table 4.38 shows that 15(28.9%) strongly agreed, 17(33.3%) agreed, 6(11.2%) were not sure, 7(13.3%) disagreed and 7(13.3%) strongly disagreed. Majority of the respondents agreed and this implies that there has been an incredible growth in earnings in this year in Stanbic Bank.

Application of risk management techniques adequately Reduced risk on loan portfolio in Stanbic Bank Mukono Branch.

The respondents were asked to state whether application risk management techniques adequately Reduced risk on loan portfolio in Stanbic Bank and the responses are contained in table 4.39

Table 4.39: Application of risk management techniques adequately reduced risk on loan portfolio in Stanbic Bank.

Response	Frequency	Percentage
Strongly agree	19	37.8
Agree	13	24.4
Not sure	9	17.8
Disagree	11	20
Total	52	100.0

Source: Primary data

From the table 4.39, 19(37.8%) strongly agreed, 13(24.4%) agreed, 9(17.8%) were not sure and 11(20%) disagreed. Majority of the respondents agreed with the statement and this implies that application risk management techniques adequately Reduced risk on loan portfolio in Stanbic Bank.

Required loan reports are forwarded to from time to time.

The respondents were asked to state whether required loan reports are forwarded to from time to time and the responses are contained in table 4.40

Table 4.40: Required loan reports are forwarded to from time to time.

Response	Frequency	Percentage
Strongly agree	15	31.1
Agree	11	20
Not sure	7	13.3
Disagree	13	26.7
Strongly disagree	6	11.1
Total	52	100.0

Source: Primary data

The table 4.40 shows that 15(31.1%) strongly agreed, 11(20%) agreed, and 7(13.3%) were not sure, 13(26.7%) disagreed and 6(11.1%) strongly disagreed. This implies that required loan reports are forwarded to from time to time.

Credit supervisors do not review the bank loan portfolio of the branch in Stanbic Bank.

The respondents were asked to state whether credit supervisors do not review bank loan portfolio of the branch in Stanbic Bank and their responses are contained in table 4.41.

Table 4.41: Credit supervisors do not review the bank loan portfolio of the branch in Stanbic Bank.

Response	Frequency	Percentage
Strongly agree	20	40
Agree	14	26.6
Not sure	5	8.8
Disagree	8	15.6
Strongly disagree	5	8.9
Total	52	100.0

Source: Primary data

The table 4.41 shows that 20(40%) strongly agreed, 14(26.6%) agreed, 5(8.8%) were not sure, 8(15.6%) disagreed and 5(8.9%) strongly disagreed. The majority of the respondents agreed with the statement and this implies that credit supervisors do not review bank loan portfolio of the branch in Stanbic Bank.

Credit chief manager of Stanbic Bank ensures that bank loan portfolio reviewed is completed on a timely basis.

The respondents were asked to state whether credit chief manager of Stanbic Bank Mpigi Branch ensures that bank loan portfolio reviewed is completed on a timely basis and their responses are contained in table 4.42.

Table 4.42: credit chief manager of Stanbic Bank ensures that bank loan portfolio reviewed is completed on a timely basis.

Response	Frequency	Percentage
Strongly agree	20	40
Agree	13	26.6
Not sure	5	8.8
Disagree	8	15.5
Strongly disagree	6	8.9
Total	52	100.0

Source: Primary data

The table 4.42 shows that 20(40%) strongly agreed, 13(26.6%) agreed, 5(8.8%) were not sure, 8(15.5%) disagreed and 6(8.9%) strongly disagreed. The majority of the respondents agreed with the statement and this implies that Chief Manager of Stanbic Bank ensures that portfolio reviewed is completed on a timely basis.

Loans are not reviewed and classified on a quarterly basis by the branches.

The respondents were asked to state whether Loans are not reviewed and classified on a quarterly basis by the branches and their responses are contained in table 4.43.

Table 4.43: Loans are not reviewed and classified on a quarterly basis by the branches.

Response	Frequency	Percentage
Strongly agree	20	40
Agree	14	26.6
Not sure	5	8.8
Disagree	8	15.5
Strongly disagree	5	8.9
Total	52	100.0

Source: Primary data

The table 4.43 shows that 20(40%) strongly agreed, 14(26.6%) agreed, 5(8.8%) were not sure, 8(15.5%) disagreed and 5(8.9%) strongly disagreed. The majority of the respondents agreed with the statement and this implies that loans are not reviewed and classified on a quarterly basis by the branches.

Loans are not graded according to objectives criteria of bank.

The respondents were asked to state whether Loans are not graded according to objectives criteria of bank of and their responses are contained in table 4.44

Table 4.44: Loans are not graded according to objectives criteria of bank.

Response	Frequency	Percentage
Strongly agree	20	40
Agree	14	26.6
Not sure	5	8.8
Disagree	8	15.5
Strongly disagree	5	8.9
Total	52	100.0

Source: Primary data

The table 4.44 shows that 20(40%) strongly agreed, 14(26.6%) agreed, 5(8.8%) were not sure, 8(15.5%) disagreed and 5(8.9%) strongly disagreed. The majority of the respondents agreed with the statement and this implies that Loans are not graded according to objectives criteria of bank of. The study discovered that intellectual simulation boosts the morale of the team members, improving quality of output and thus enhancing goal attainment.

Hypothesis Testing.

In order to examine the nature of relationship between risk monitoring and reduction in non-performing loans, correlation, regression, Anova and coefficients tests were performed on the data collected. The results are summarized in the proceeding tables 4.45 – 4.48.

Table 4.45 Correlation Analysis Matrix.

	Risk monitoring	Reduction in non-performing loans
Pearson Correlation	1	0.445**
Risk monitoring Sig. (2-tailed)		0.000
N	52	52
Risk in non Pearson Correlation	0.445**	1
Performing loans Sig. (2- tailed)	0.000	
N	52	52

Source: Primary data

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

The correlation result revealed a positive significant relationship between risk monitoring and reduction in non-performing loans ($r = 0.445^{**}$, $p < 0.05$). This implies that risk monitoring has the capacity to improve on the reduction in non-performing loans. It is suggested that utilizing risk monitoring results into reduction in non-performing loans.

Regression Analysis.

Regression analysis was performed in order to establish the extent to which risk monitoring explained the degree of variance in reduction in non-performing loans. The result obtained is presented in the model summary table that follows:

Table 4.46 Regression Analysis Model Summary.

Model	R	R square	Adjusted R square	Std. Error the estimate
1	0.445	0.569	0.545	0.47784

a. Predictors: (Constant), risk monitoring.

The regression analysis result in table 6.16 revealed that risk monitoring contributes up to 56.3% to reduction in non-performing loans in Stanbic Bank (Adjusted R square= 0.555, SEE = 0.47784). This means the remaining percentage (55.5%) is contributed by other factors. It also implies that when risk monitoring is utilized, reduction in non-performing loans will also be achieved.

ANOVA Analysis.

ANOVA analysis was performed to test the hypothesis that risk monitoring significantly relates with reduction in non-performing loans. The results are summarized in table 4.47 below:

Table 4.47: Analysis of Variance.

Model		Sum of squares	Df	Mean square	F	Sig.
1	Regression	28.499	1	28.499	124.812	0.000
	Residual	21.691	95	0.228		
	Total	50.190	96			

a. Dependent Variable: reduction in non-performing loans

b. Predictors: (Constant), risk Monitoring

According to the ANOVA test results in the table 6.18, it is revealed that risk monitoring significantly enhances reduction in non-performing loans (F=124.81, P<0.05). This implies that best practices risk monitoring has the capacity of influencing reduction in non-performing loans in Stanbic Bank.

Table 4.48 Coefficient Test Result.

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.190	0.287		0.663	0.509
1 Risk monitoring	0.838	0.075	0.754	11.172	0.000

b. Dependent Variable: reduction in non-performing loans

In table 5.13, the coefficient test result show that risk monitoring significantly influences reduction in non-performing loans as reflected with beta value=0.754, t=0.663, P<0.05). This implies that the implementation of risk monitoring will have a positive impact on the nature reduction in non-performing loans in Stanbic Bank.

4.4 HARMONIZATION OF OPERATIONAL RISK MANAGEMENT AND FINANCIAL PERFORMANCE IN STANBIC BANK MUKONO BRANCH.

This part is towards the harmonization of operational risk management and financial performance at Stanbic Bank Mukono Branch. Operational risk management was treated as independent and Financial performance as a dependent variable. Regulatory requirements, country's economic conditions and inflation positively moderated the relationship between operational risk management and financial performance.

Operational risk management.

Operational risk management in banks has been increasingly emphasized in the past decade. Big financial scandals, frauds and information system failures are important drivers for the greater attention both inside and outside banking institutions to their exposures to and internal handling of such risk.

This study has defined operational risk as the risk of losses resulting from inadequate or failed internal processes, people and system or from external events, it is divided into those losses that are expected and those that are unexpected. The banking sector in Uganda has been facing

challenges related to operational risk management and thus leading the breakdown of some banks for example the Green Land Bank and the Crane Bank.

Also according to Bloom & Galloway (2017) operational risk is not a new risk, it is significant and maybe growing, virtually every catastrophic financial institution loss that has taken place during the past 20 years. Example of operation risk occurred in the past years; a bond trader of Daiwa Bank in New York had caused and hidden losses of USD 1.1 billion through non-compliant transactions and scam deals. Daiwa did not have any appreciable management controls or even the simplest internal control that could have immediately expose the fraudulent transactions.

Globalization and new technology have provided banking industry with profit making opportunities but have also made it more vulnerable to operational risk, (Bloom & Galloway, 2017). They also suggested that risks other than credit, interest and market risks can be substantial. The committee identifies the following examples of the new and growing risks faced by banks; the greater use of highly automated technology has the potential to transform risk from manual processing errors to system failure risks as greater reliance is placed on globally integrated systems. The growth of e-commerce brings potential risk such as internal and external frauds and systems security issues that are not fully understood. The emergence of banks acting as large volume service providers creates the need for continual maintenance of high grade internal controls and backup systems.

The study revealed that Stanbic Bank carries out a comprehensive and systematic identification of its risk relating to each of its operations and this is supported by Deorig (2003), who states that banks may engage in risk mitigation techniques to optimize the exposure to market and credit risk but which may in turn produce other forms of risk like operational risks which the group categorized as organizational risks, process risks, technology risks, human risks and external risks.

Financial performance.

The financial performance assessment is devoid of a multitude of options and methodologies despite critical importance of financial sustainability. Though an ambition for sustainable institutions has been often articulated, there was also an opinion that most financial institutions working in this field have been unsustainable.

The study found out that a system of effective operational risk management is a critical component of organization's success and a foundation for the financial performance and this means that, ineffective operational risk management result in of financial information. This is supported by (Frosdick, 2007) who states that, the recent rash of corporate failures and accounting frauds in financial performance are mostly preceded by a failure in a company's internal financial control structures.

One of the main aspect which contributes to the failure relate to the inadequate operational risk management around the disclosure of information to stakeholders and not achieving the objectives of operational risk management over financial performance undermines the reputation of the organization. Even at the presence of other control components, making it difficult or impossible for an organization to reliable market, to be able to collect financial resources, to be credible to shareholders and shareholders in general. Therefore, management should take full responsibility for operational risk management over financial performance within an organization and provide assessment by management.

Operational Risk Management and Financial performance.

Mitchel (2018), on his study supported the argument brought in by this study that operational risk management at Stanbic Bank influence its liquidity, profitability, and reduction of non-performing loans through enhanced risk management practices. The study discovered that risk identification, assessment and risk assessment are the largest contributor towards risk management while budgeting and strategic planning are indispensable players in managing risk which affect the bank's profitability. Williamson (2004) also revealed that a year-to-year cost income ratio, equity to total assets ratio, total asset growth ratio and ratio of loan loss reserve to gross loans positively influences the likelihood of financial distress in the coming year. Williamson (2004) further stated that some operational risk management practices do have significant effect on financial performance more than others i.e. the existence of operational risk management policy and the integration of risk management in setting of organizational objectives were considered to be the key risk management practices that had a direct effect on financial performance. This means that although there are other determinants of performance not included in the study, Stanbic Bank can improve their performance by focusing on developing

strong operation risk management policies and integrating risk management in the process of setting achievable organizational objectives.

The results for correlation analysis between risk identification and liquidity showed that operation risk identification was positively related to financial performance and the relationship was significant, ($r=0.227^*$, $p<0.05$). The study findings are supported by (Frosdick, 2007) who found that risk identification was positively and significantly related to liquidity. The study findings also were corroborated by Brown (2014) who states that risk identification was related with liquidity in the case of financial institutions in Tanzania. However, he also argued that the regulatory and institutional framework has improved significantly over the years yet still the banking sector in Uganda and Stanbic Bank in particular is faced with lots of challenges including extensive errors, defaulting, fraud and malpractices.

The study results for ANOVA indicated that risk identification was significantly related to liquidity at Stanbic Bank. However, these results are in contrast with (Frosdick, 2007) whose ANOVA findings showed that there was not a significant relationship between risk identification and to liquidity in microfinance institutions in Nigeria.

The results for multiple linear regression revealed that risk identification significantly predicted liquidity, (Beta value=0.227, $t=2.259$, $P<0.05$). Thus risk identification had a positive and significant effect on liquidity in Stanbic Bank A unit improvement in risk identification led to 0.415unit increase liquidity. The study results confirm the findings by Wharton (1992) who carried out a study to determine the effects of operational risk management and its components on financial performance and found that risk identification had a significant and positive affect the liquidity. The study revealed that unit improvement in risk identification leads to 0.203 units increase in liquidity.

Risk assessment and profitability at Stanbic Bank.

The study investigated the contribution of risk assessment on financial performance at Stanbic Bank. The results for correlation analysis between Risk assessment and profitability showed that risk assessment was positively related to profitability at Stanbic Bank and the relationship was significant, ($r = 0.280$, $p<0.05$). These are supported by correlation results by (Frosdick, 2007) who found that the relationship between risk assessment and profitability was positively

correlated and statistically significant. Thus, there was significant relationship between risk assessment and profitability at Stanbic Bank.

The study results for multiple linear regression showed that risk assessment significantly predicted financial performance, (Beta value=0.280, $t=4.408$, $P<0.05$). This finding reveals that risk assessment had a positive and significant effect on financial performance. This study result suggested that a unit improvement in risk assessment would lead to 0.074 units increase in financial performance at Stanbic Bank.

Risk monitoring and reduction of no-performance loans at Stanbic Bank.

The study sought to examine how risk monitoring enhances the reduction of non-performing loans at Stanbic Bank. The results for correlation analysis between risk monitoring and reduction of non-performing loans showed that risk monitoring was positively related with reduction of non-performing loans and the relationship was significant, $r = 0.754^{**}$, $p<0.05$.

This study results supported by Anderson (2014) finding that the correlation between risk monitoring and reduction of non-performing loans in the case of TXS in Bosnia was significant.

The results for multiple linear regression showed that risk monitoring significantly predicted the reduction of non-performing loans at Stanbic Bank, beta value=0.754, $t=0.663$, $P<0.05$). This finding indicates that the coefficient for risk monitoring was statistically significant. Thus risk monitoring had a positive and significant effect on the reduction of non-performing loans at Stanbic Bank. A unit improvement in risk monitoring led to 0.437%-unit increase in reducing non-performing loans.

Relationship between Operational risk management and financial performance at Stanbic Bank.

The main hypothesis that the current study set out to test was the relationship between operational risk management and financial performance at Stanbic Bank. In order to establish this, correlation, regression, ANOVA and Coefficients analysis for the three objectives were performed on the collected data.

The regression confidents of the three objectives represented by adjusted R2 and the average were considered in order to reach on the conclusion.

The adjusted R² for each objective is presented as below:

Risk identification and liquidity= 0.415

Risk assessment and profitability = 0.074

Risk monitoring and reduction of non-performing loans = 0.563

$$\text{The average} = \frac{0.415+0.74+0.563}{3}$$

$$= 0.573 \text{ or } 57\%$$

Since the average results are positive implies that, there is a positive significance relationship between operational risk management and financial performance at Stanbic Bank. The average results of adjusted R² of 57% also means that a unit increase in operational risk management leads to 57% increase on financial performance at Stanbic Bank.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction.

The chapter presents the summary, conclusion and recommendations based on the key issues that emerged in the reviewed literature and study findings in line with the study objectives. These findings were generated from both primary and secondary data using the methodology in chapter three. The findings were consistent with research objective and questions and provided answers which were used as a basis for drawing logical conclusions and recommendations from the study. In the presentation of the findings, tables were used so as to provide a better analysis and presentation of findings. The findings presented reflected responses generated from all categories of sample populations chosen for this study.

5.1 Summary of findings.

The purpose of this study was to investigate the contribution of operational risk management on financial performance of Stanbic Bank. The study sought to answer the following research questions: how has Stanbic Bank analyzed operational risk to ensure profitability and how has Stanbic Bank monitored operational risk to enhance reduction in non-performing loans?

5.2 Contribution of risk identification to liquidity.

As discussed in chapter four, most of the respondents indicated that Stanbic Bank carries out comprehensive and systematic identification of its risk relating to each of its operations (basing on 72.7% agree rate), Stanbic Bank identifies the potential cause of operational risk (basing on 55.5% agree rate), changes in risks are recognized and identified with the bank's rules and responsibilities (basing on 64.4% agree rate), Stanbic Bank is aware of the strengths and 96 weaknesses of the risk management systems of the other banks (basing on 40% agree rate), Stanbic Bank has developed and applied procedures for the systematic identification of investment (basing 62.2% agree rate) and Stanbic Bank quantifies operational risk through estimation of losses (basing on 62% agree rate).

5.3 Risk assessment and analysis and profitability.

As reflected in chapter five, majority of the respondents indicated that Stanbic Bank assesses the likelihood of occurring risk on a timely basis (basing on 59.9% agree rate), Stanbic Bank assess

risk using appropriate quantitative analysis methods (basing on 62% agree rate), all lending decisions are processed by a detailed analysis of risk (basing on 63% agree rate), Stanbic Bank assess risk using appropriate qualitative analysis methods (basing on 64.4% agree rate), Borrowers line of business records are assessed before approval of a loan (basing on 56% agree rate) and Stanbic Bank pay much attention on customer vetting (basing on 64.4% agree rate). However, the study also revealed that Stanbic Bank does not regularly study and assess its opportunities to achieve objectives (basing on 70.2% disagree rate).

5.4 Risk monitoring and reduction in non-performing loans.

As discussed in chapter six, most respondents indicated that risk assessment the effectiveness of risks is an integral part of routing management reporting in Stanbic Bank (basing on 60% agree rate), the level of control is appropriate for the risk Stanbic Bank faces (basing on 66.6% agree rate), Stanbic Bank carries out loan reviews (basing on 62.1.% agree rate), Communication process within Stanbic Bank adequately supports effective management of risk (basing on 59.9% agree rate), Stanbic Bank response to risk includes action plans for implementing decision 97 (basing on 731% agree rate), the worrying signals arising out assessment are taken serious by the compliance manager (basing on 51.1% agree rate), Stanbic Bank has built a data base for defaulting customers (basing on 64.4% agree rate), exposure ceiling is observed for each of the clients (basing on 68.9% agree rate) and Stanbic Bank trucks the non-performing loans every year (basing on 62.2% agree rate).

5.5 Financial performance at Stanbic Bank.

The study ought to establish the level of performance at Stanbic Bank and according to chapter seven, majority of the respondents indicated that risk management has enabled Stanbic Bank to increase its profitability (basing on 57.8% agree rate), Risk management has helped Stanbic Bank to improve its insolvency (basing on 65% agree rate), Stanbic Bank has adequately improved its overall Profitability in the past five years (basing on 62% agree rate), the emphasis on continuous review and evaluation of risk helped to improve performance in Stanbic Bank (basing on 55.5% agree rate), risk management has enabled Stanbic Bank to minimize the level losses (basing on 64.4% agree rate), there has been an incredible growth in earnings in this year in Stanbic Bank (basing on 62.2% agree rate), application risk management techniques adequately Reduced risk on loan portfolio in Stanbic Bank (basing on 63% agree rate), required

loan reports are forwarded time to time (basing on 51.1% agree rate), chief manager of Stanbic Bank ensures that portfolio reviewed is completed on a timely basis (basing on 67% agree rate), loans are not reviewed and classified on a quarterly basis by the branches (basing on 66.7% agree rate) and loans are not graded according to objectives criteria of bank (basing on 67% agree rate). The study further revealed that Stanbic Bank has been registering low level of non-performing loans (basing on 68.9% agree rate)

5.6 Conclusion.

The study found that the regression coefficient between two variables was significant and positive. This finding suggested the rejection of the null hypothesis implying that operational risk management significantly affected financial performance in Stanbic Bank and thus an improvement in operational risk management would increase financial performance.

The results from the study revealed that there is a significant positive relationship between operational risk management and financial performance in Stanbic Bank. The findings are consistent with the view that operational risk management is a management function that is critical for proper financial performance. The study through interviews further revealed that, the monitoring system of Stanbic Bank is weak and this has caused some losses to the Bank.

5.7 Recommendations.

Basing on the study findings therefore, the researcher recommended that: Management of Stanbic Bank should tighten its operational risk management systems in order to continue improving its financial performance. Stanbic Bank should regularly study and assess its opportunities to achieve its financial objectives. The Bank should also improve on its monitoring system in order to avoid some losses.

Areas for further study.

The following areas have been recommended for further review and study:

- Internal financial controls and financial performance of Stanbic Bank.
- Credit risk management and profitability of commercial Banks in Uganda.
- Liquidity risk management and financial performance of Stanbic Bank.

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APPENDIX I

QUESTIONNAIRE FOR THE RESPONDENTS.

I am an under-graduate student in the Faculty of Business and Administration, Uganda Christian university, carrying out a research on the topic, “Operational Risk Management and Financial Performance of Banking industry in Uganda: A case study of Stanbic Bank” in partial fulfillment of the requirements for the award of a degree in Bachelors of Science in Accounting and Finance. It is in relation to this, that I request you to kindly complete the attached questionnaire. I assure you that the information to be supplied would be used in strict confidence and for no purpose other than that of the research work. Thank you for sparing your precious time.

Yours faithfully,

Okello Stephen Alengo.

SECTION A: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS.

Gender (Please tick): Male (1)

Female (2)

Age of respondents.

20 – 29	<input type="checkbox"/>
30 – 39	<input type="checkbox"/>
40 – 49	<input type="checkbox"/>
50 years and above	<input type="checkbox"/>

Qualification under education discipline (please specify):

1. Certificate: _____

2. Diploma: _____

3. Bachelors: _____

4. Masters: _____

5. Others (specify): _____

How long have worked with Stanbic Bank.

- 1. Less than/ below one year
- 2. 1-4 years
- 3. 4-7years
- 4. 8-11 years
- 5. 12 years and above

Please choose (by ticking) only one option that suits your level of agreement or disagreement for each of the following statements below:

<i>Strongly Disagree.</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agree</i>	<i>Strongly Agree</i>
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>

SECTION B: Risk Identification enhances Liquidity at Stanbic Bank Mukono Branch.

	Risk identification					
No.	Question	5	4	3	2	1
1.	Stanbic Bank carries out a systematic identification of its risk relating to each of its operations.					
2.	Stanbic Bank identifies the potential causes of operational risk.					
3.	Changes in risk are recognized and identified with the Bank`s rules and responsibilities.					
4.	Stanbic Bank is aware of the strengths and weaknesses of the risk management systems of other banks.					
5.	Stanbic Bank has developed and applied procedures for the					

	systematic identification of investment.					
6.	Stanbic quantifies operational risk through estimation of loses.					
7.	Stanbic Bank assesses the likelihood of occurring risk on timely basis					
8.	Stanbic bank assesses risk using appropriate quantitative analysis methods.					
9.	All lending decisions are processed using a detailed risk analysis.					
10.	Stanbic bank assesses risk using appropriate qualitative analysis methods.					
11.	Stanbic Bank regularly study and assesses it`s opportunities to achieve objectives.					
12.	Borrowers line of business records are assessed before approval of a loan.					
13.	Stanbic bank pay much attention on customer vetting.					

Section C: assessment and analysis of operational risk in Stanbic.

1.	Risk assessment of the effectiveness of risk management is an integral part of routine management reporting in Stanbic bank.					
2.	The level of control is appropriate for the risk Stanbic Bank faces.					
3.	Stanbic carries out loan reviews.					
4.	Communication process within Stanbic Bank adequately supports effective management of risk.					
5.	Stanbic Bank response to risk includes action plan for					

	implementing decision.					
6.	The worrying signals arising out of assessment are taken serious by the compliance manager.					
7.	Stanbic bank has built a data base for defaulting customers.					
8.	Exposure ceiling is observed for each of the clients.					
9.	Stanbic Bank trucks the non-performing loans every year.					

SECTION D: Risk Monitoring risk to ensure reduction in non-performing loans.

No.	Question	5	4	3	2	1
1.	Risk management has enabled Stanbic Bank to increase its profitability.					
2.	Risk management has helped Stanbic Bank to improve its insolvency.					
3.	Stanbic Bank has adequately improved its overall profitability in the past five years.					
4.	The emphasis on continuous review and evaluation of risk helped to improve performance in Stanbic bank.					
5.	Risk management has enabled Stanbic bank to minimize the level of losses.					
6.	Risk management has helped Stanbic bank to improve its liquidity.					
7.	Stanbic Bank has been registering low level of non-performing loans.					
8.	There has been an incredible growth in earnings in this					

	year in Stanbic bank.					
9.	Application of risk management techniques adequately reduced risk on loan portfolio in Stanbic bank.					
10.	Required loan reports are forwarded to Stanbic from time to time.					
11.	Credit supervisor do not review portfolio of the brunch in Stanbic bank.					
12.	Chief manager of Stanbic bank ensures that portfolio reviewed is completed on a timely.					
13.	Loans are not reviewed and classified on a quarterly basis by the branches.					
14.	Loans are not graded according to objectives criteria of bank of Uganda.					
15.	There is a valuable feedback on the effectiveness of bank`s loan.					
16.	All officers handling the loan are qualified.					
17.	Loan officers and managers fail to adhere to loan policies and procedures when engaged in lending activities.					

Appendix II: Interview guide.

- i. How long have you been in Stanbic Bank?
- ii. How does Stanbic Bank manage its operational risk
- iii. How Stanbic Bank Uganda has identified the degree of risk to enhance liquidity?
- iv. How does Stanbic Bank analyze its operational risk to ensure profitability?
- v. How has Stanbic Bank monitored operational risk to enhance the reduction in non-performing loans?
- vi. Does Stanbic Bank quantify operational risk through estimation of losses?
- vii. Does Stanbic Bank assess risk using appropriate quantitative analysis methods?
- viii. Are all lending decisions processed by a detailed analysis of risk?
- ix. Does Stanbic Bank respond to risk?
- x. Does risk management enable Stanbic Bank to increase its profitability?

Appendix III: Documentary Review.

- i. Textbooks.
- ii. Journals.
- iii. Stanbic Bank Uganda Reports.
- iv. Periodicals.
- v. Conference proceedings.
- vi. Dissertations.
- vii.** Internet.

Table for Determining Sample Size for a Finite Population.

<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	100000	384

Note.—*N* is population size. *S* is sample size.

Source: Krejcie & Morgan, 1970



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SCHOOL OF BUSINESS

1st Aug 2023

TO WHOM IT MAY CONCERN

Name: OKELLO STEPHEN ALENGO Reg. No. V20B23/236

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

"OPERATIONAL RISK MANAGEMENT AND FINANCIAL PERFORMANCE
IN THE BANKING VECTOR IN UGANDA."

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

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter
Research coordinator