RISK MANAGEMENT AND PERFORMANCE OF COMMERCIAL BANKS IN NTUNGAMO DISTRICT. A CASE STUDY OF CRANE BANK

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE AWARD OF A BACHELORS DEGREE OF BUSINESS ADMINISTRATION AT KAMPALA INTERNATIONAL UNIVERSITY

MAY, 2016

DECLARATION

I, **AYEBAZIBWE ASON** , here by truthfully declare to the best of my knowledge that this report is my original work and has never been published and/or submitted before for the award of A Degree, for any equivalent title in any university or any other academic institution of Higher Learning.

Signature.. Date. 30/05/2016 ....

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Approval

This is to certify that this report has been submitted in partial fulfillment of the requirements for the award of a Bachelor's Degree in Business Administration with my approval as the University supervisor.

Signature.................................... Date...30th May 2016............

MADAM . IRAU FLORENCE

DEDICATION

I dedicate this research report to the Almighty God who always opens opportunities for me and my family. Further dedication is to my parents without forgetting. I also dedicate this report to all my brothers and sisters: and all others who have always been on my success side.

ACKNOWLEDGEMENT

This work is not the result of my only effort but a good number of people have contributed towards its accomplishment.

My sincere appreciation goes to the almighty God for his tender guidance and care he has given to me. It is also my privilege and honor to express my sincere gratitude to all the people who assisted me in carrying out the research.

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ABBREVIATIONS AND ACRONYMS

ATM: Automated Teller Machines

PHB: Platinum Habib Bank

CRB: Credit Reference Bureau

BOU: Bank of Uganda

EBITDA: Earnings Before Interest Taxes Depreciation and Amortization

SME: Small and Medium Sized Enterprises

G2B: Government to Bank Services

NPLs: Non-Performing Loans

MFIs: Microfinance Institutions

SACCOs: Savings and Credit Cooperatives

NPV: Net Present Value

VAR: Value at Risk

GAAP: Accepted Accounting Principles

ERM: Enterprise Risk Management

ABSTRACT

The banking sector plays a very important role in the economy and the stability of the sector cannot be over emphasized .Global trends such as Basel framework requires bank to establish risk management systems to measure and mitigate risks. Several theories on risk management have been put across among them financial theory, agency theory, stakeholder theory and new institutional economics. Several studies have been conducted with bias towards tools and techniques adopted by various institutions on credit risk management. Study on the various risks encountered by commercial banks has not been conducted. This study sought to identify the risks faced by commercial banks to establish the relationship between credit risk management and performance of commercial banks; to investigate the relationship between Risk management and financial performance of Commercial Banks; the study also thought to determine the risk management practices adopted by commercial banks.

A sample of 61 respondents was selected from the total population and the questionnaire was distributed in order to collect data to be analyzed using Microsoft Office Excel package and regression analysis was carried out in order to establish the relationship between the variables and the finding revealed that there was a significant relationship between the variables of the current research. Regression analysis showed that risk management significantly predicted 57.1% of financial performance of commercial banks. Commercial banks were recommended to enrich and empower their risk management committee, credit committee and audit function since these are very instrumental in the banking business. This will in turn bring about better performance in terms of better profitability, earnings and cash flows.

CHAPTER ONE
INTRODUCTION

1.0. Introduction

This chapter will present the background of the study, problem statement, purpose, objectives, research questions, hypothesis, and scope, significance of the study, and conceptual framework.

1.1. Background

1.1.1. Historical perspective:

Prior to Uganda's independence in 1962, government owned institutions dominated most banking in Uganda. In 1966 the bank of Uganda, which controlled the issue of currency and managed foreign exchange reserves, became the central bank. In the 1960s, commercial banks included Bank of Baroda, Barclays Bank, Bank of India, Grinlays Bank, standard charted bank and Uganda cooperative bank. During the 1970s and early 1980s, the number of commercial bank branches and services contracted significantly. Whereas Uganda had 29 commercial bank branches in 1970, by 1987 there were only 84, of which 58 branches were operated by government-owned banks. This number began to increase slowly the following year, and in 1989the gradual increase in commercial banking activity signaled growing in Uganda's economic recovery (Juuko & Sylvia, 2014).

In the late 1990s and early 2000s, the Ugandan banking industry underwent significant restructuring. Several indigenous commercial banks were declared insolvent, taken over by the central bank and eventually sold or liquidated. These included Greenland bank, Teefe Bank, Gold Trust Bank, which were closed or sold (Juuko and Sylvia, 7th July, 2014). During the past two decades 1990-1999 and 2000-2009, Uganda commercial banking industry underwent significant restructuring. In the early 1990s, Uganda embarked on banking sector reforms, focusing on improving bank performance, through liberalization and strengthening prudential regulations, (Bategeka & Okumu, 2010). The reforms restructured the banking industry with regard to advances in computer technology, that led to electronic and internet based banking. Consequently, there are changes in internal bank operations; relationships with customers and inter-bank interactions. These improvements caused repercussions on the costs and revenue of commercial banks and ultimately performance differences between domestic and foreign commercial banks, (Nsambu, 2014).

The results of banking sector reforms suggest mixed outcomes. Whereas there was impressive improvement for the banking system as a whole, the performance of foreign commercial banks remained quite steady and even improved while domestic commercial banks suffered massive decline in their profitability and they also accumulated more non-performing loans (Mpuga, 2002). The decline became a source of anxiety as domestic commercial banks are performing relatively poorly compared to foreign commercial banks. There was a need to reveal the causes of these differences among commercial banks in Uganda. However between 2008 and 2009, several banks went on an accelerated branch expansion either through mergers and acquisitions or through new branch openings. As of December 2009, total commercial bank assets in Uganda were estimated at US$4.6 billion (Ugx 8.73 trillion). In April 2009, Bank PHB, Nigeria's fifth largest bank, bought 80% ownership of orient bank, Uganda's 8th largest commercial bank. This brought the number of Ugandan banks with major investments from Nigeria to three (www.tradeinvestafrica.com/may 2014).

As of October 2010, there were 22 licensed commercial banks in Uganda, with nearly 400 bank branches and a total of almost 600 automated teller machines (ATM). At that time, the number of bank accounts in the country was over five million. This represented a 16% penetration, given Uganda's population of 32,000,000 at that time (Pascaline & Dupas et al, 2013). In Uganda, commercial banks play an important role in mobilizing financial resources for investment by extending credit to various businesses and investors. Lending represents the heart of the banking industry and loans are the dominant assets as they generate the largest share of operating income.

Loans however expose the banks to the greatest level of risk. Currently there are 25 licensed commercial banks in Uganda, 2 are locally owned and 23 are foreign owned. 1 credit reference bureau (CRB) and 3 credit institutions. However, the Central Bank of Uganda has the role of supervising and controlling all these commercial banks and aims at enabling commercial banks to share information (www.bou.or.ug).

1.1.2. Theoretical perspective:

The maturity of risk management processes is correlated with sustainable improvement in commercial banks. A report released by earnest and young recently, has identified that the level of risk management can impact on the financial performance of commercial banks. The study identified that commercial banks in the top 20 percent of risk maturity, where maturity was identified by the number of risk management practices applied generated three times the level of earnings before interest, taxes, depreciation and amortization (EBITDA) as those in the bottom of 20 percent. This means that commercial banks with the most advanced risk management show the strongest level of growth as measured in terms of earnings before interest, taxes, depreciation and amortization. Good risk management contributes to sustainable commercial banks' growth. (luzzi, 2012). Klimczak (2010) in his study suggested that risk management in commercial banks should be examined carefully in order to succeed in their business operations and proved that there is a positive link between risk management and performance of commercial banks. Studies of Nanyonjo (2007) were on the impact of risk management and structure of Uganda's banking sector on profitability of commercial banks during 1993-1999. The work was extended by Mugume (2010) by examining the market structure and performance in Uganda's banking industry, purposely to ascertain the relative strength of market power and efficiency in explaining banks performance. The findings indicated that market power and concentration had a positive effect on profitability of commercial banks and that effective risk management had a positive effect on profitability of commercial banks in Uganda.

1.1.2. Conceptual perspective:

Risk management is defined as the process that a bank puts in place to control its financial exposures (Seppela, 2000). A risk in simple terms can be measured using standard deviation; some risks may be difficult to measure requiring more complex of risk measurement. Good risk management is not only a defensive mechanism, but also an offensive weapon for commercial banks and this is heavily dependent on the quality of leadership and governance. Jorion (2009) noted that a recognized risk is less "risky" than the unidentified risk. Risk is highly multifaceted, complex and often interlinked making it necessary to manage, rather than fear. While not avoidable, risk is manageable – as a matter of fact most banks live reasonably well by incurring risks, especially "intelligent risks" (Bratanovic, 1999; Pay le, 1997).

However commercial banks face different types risk and these include: Credit Risk, Market risk, Liquidity Risk, Interest Rate Risk, Exchange Rate Risk, Operational Risk, Counterparty Risk, Trading Risk, Performance risk, Compliance Risk, Strategic risk, Reputational risk etc. (Yusuf, 2009). As these risks faced by commercial banks are many in numbers this research will concentrate on credit risk, liquidity risk, interest rate risk and exchange rate risk. This gives the opportunity to future researchers of the same field. Risk management being the process by which managers identify key risks, obtain consistent, understandable operational risk measures, choose which risks to reduce and which to increase and by what means, and establish procedures to monitor the resulting risk position. Financial risk in a banking organization is possibility that the outcome of an action or event could bring up adverse impacts. Such outcomes could either result in a direct loss of earnings/capital or may result in imposition of constraints on bank's ability to meet its business objectives. Such constraints pose a risk as these could hinder bank's ability to conduct its ongoing business or take benefit of opportunities to enhance its business. Generally, risk is possibility of reduction in firm value due to changes in the business environment (Mutesi, 2011).

The goal of risk management is to optimize risk-reward trade-off. Financial institutions should have in place risk management framework that encompasses the scope of risks to be managed, the process/system or procedures to manage risk, the role and responsibilities of individuals involved in risk management. The framework should be comprehensive enough to capture all risks a commercial bank is exposed to and have flexibility to accommodate any change in business activities. One of the most important aspects in risk management philosophy is to make sure that those who take or accept risk on behalf of the institution are not the ones who measure, monitor and evaluate the risks. Again the managerial structure and hierarchy of risk review function may vary across banks depending upon their size and nature of the business. To be effective the review functions should have sufficient authority, expertise and corporate stature so that the identification and reporting of their findings could be accomplished without any hindrance (State Bank of Pakistan, 2003).

1.1.3. Contextual perspective:

This study will concentrate on risk management and performance of commercial banks in Uganda with a case study of crane bank which. Crane bank is a large financial services provider in Uganda. It is involved in all aspects of commercial banking with a focus on the provision of banking services to foreign embassies and non-governmental organizations and their staffs. As of December 2013, crane bank was the 4th largest commercial bank in Uganda, with an asset valuation of approximately US$575.3 million and shareholders' equity in excess of US$114.2 million. The bank is the largest indigenous Ugandan commercial bank (Muneza & Stephen, 2013) and (crane bank annual financial report, 2014). Crane Bank being a commercial bank that offers banking and financial services and products which include personal banking, Small and medium sized enterprises (SME) Banking, business banking, agricultural finance, international money transfer, VISA services, government to bank services (G2B), internet banking and securities and brokerage services through its owned subsidiaries faces various risk which many of them have been a common major problem for all commercial banks as stated in the above paragraphs, this work will not look at all the risks but it will concentrate on the risk the risk stated above.

1.2. Statement of the problem

For any financial institution to survive, risk management should be observed with maximum care, the ineffective risk management practices and poor performance in commercial banks continue to exist as evidenced by the persistent decline in the profit margins, increasing number of dormant account holders, high loan defaults and increasing high interest rates (Monitor, 2009).This could be compromising the financial performance in the commercial banks. If this problem remains unchecked, then financial performance is likely to remain misery. Weaknesses in the Uganda banking system became apparent in the late 1980s and still continue to rise. These are manifested in the relatively controlled and fragmented financial system. The liberalization of the Uganda banking industry has intensified competition among the commercial banks, which has forced Centenary Bank to extend huge amounts of credit with the main objective of increasing profitability. Some of the loans are "political loans" granted with little or no credit

1.5 Hypothesis:

The following testable hypotheses are formulated in line with the research topic:

$H1_1$: There is a significant relationship between risk management and performance of commercial banks.

1.5.1 Time scope

The study will take three months from February – April, 2016

1.6 Geographical Scope:

The study will be carried out from Crane Bank branch Located a long Ntungamo Kabale road opposite Kobile station Ntungamo District in Uganda . This branch was selected because it has a good number of customers and borrowers and it's near the Town which makes it easy to axcess compared to some other branches of the bank.

Content,

The study will be limited to risk management and performance of commercial banks in Uganda. The researcher will base on objectives in order to investigate on the impacts risk management on performance of commercial banks. Basing on time, The study will be carried out for the period of four months, from February 2016 to May 2016 and the researcher will collect much of the literature ranging from 2002-2014 in order to obtain current information on the impact of risk management and performance of commercial banks, other financial institutions excluded such as the stock exchange, insurance companies, microfinance institutions (MFIs), Savings and Credit Cooperatives (SACCOs) and pension funds. However this provides an opportunity for further research.

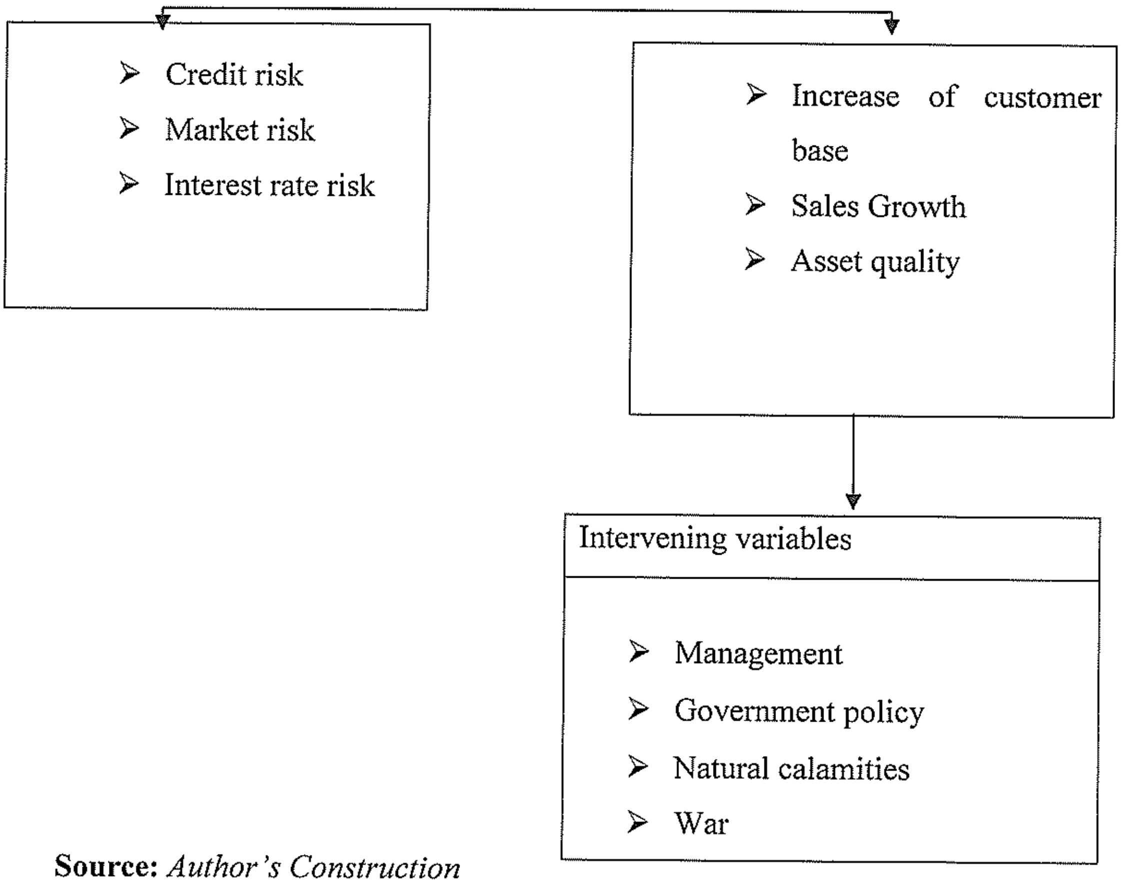
1.7 Significance

The results and findings of this study will help various stakeholders to better understand risk management and in what ways the banks can implement good risk management practice that aligns with banks' performance. This study is will benefit the following parties: to academic, this study is expected to add to the body of knowledge on risk management and identify areas for further research, and it will be used as reference for future researchers of the same field. To commercial banks, the findings of this research project will contribute to improving understanding about risk management practices in Uganda banking industry, and in what ways the banks can enhance risk management. To researcher, the researcher will find the study significant in the fulfillment of the requirement for the award of the bachelor's degree in business administration.

1.8. Conceptual framework

Independent variable Risk management

Dependent variables Performance of commercial banks



Source: *Author's Construction*

In the conceptual framework, it is understood that if there are good policies and programs put in place Crane Bank the operation, then the process will take place smoothly to ensure well financial performance from internal early warning systems and management.

Outcome: When commercial banks' risk management is efficiently done this will affect the level of profitability or performance of commercial banks but however when the risks faced by commercial banks are not well managed. However risk management is a key factor which determines the level of progress of any organization commercial banks not ignored. Thus proper mechanism and system of risk control affect commercial banks performance positively (Abuda, 2014).

CHAPTER TWO
LITERATURE REVIEW

2.0. Introduction

In this chapter, literature about t risk management and financial performance has been reviewed. Different books, articles, magazines, journals and internet have been visited. Therefore, here, literature about advertising methods, factors influencing financial performance and the relationship between risk management and financial performance are given below in different themes.

2.1. Types of risk faced by commercial banks

The risks associated with the provision of banking services differ by the type of service rendered. The type and degree of risks an organization may be exposed to depend upon a number of factors such as its size, complexity of business activities, volume etc. It is generally believed that commercial banks face various risks which include, market or systemic, credit, counter party, liquidity, operational, performance, agency, strategy, compliance/regulatory & reputation risks etc. (State Bank of Pakistan, 2003).

2.1.1. Credit risk:

According to Chijoriga (1997), in his study of credit risk management and performance of commercial banks, credit risk is the most expensive risk in financial institutions and its effect is more significant as compared to other risk as it directly threatens the solvency of financial institutions. The magnitude and level of loss caused by the credit risk as compared to other kind of risks is severe to cause high level of loan losses and even bank failure. Credit risk is the change in net asset value due to changes in the perceived ability of counter parties to meet their contractual obligations; it is defined as changes in portfolio values due to failure of counter-parties to meet their obligations or due to changes in the market's perception of their ability to continue to do so. Ideally, a bank's risk management system should integrate this source of risk with market risk to produce overall measure of the bank's potential loss. Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting in economic loss to the bank. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counter party to meet commitments in relation to lending, trading, settlement and other financial transactions.

Alternatively losses may result from reduction in portfolio value due to actual or perceived deterioration in credit quality. Credit risk emanates from a bank's dealing with individuals, corporate, financial institutions or a sovereign. For most banks, loans are the largest and most obvious source of credit risk; however, credit risk could stem from activities both on and off balance sheet. In addition to direct accounting loss, credit risk should be viewed in the context of economic exposures. This encompasses opportunity costs, transaction costs and expenses associated with a nonperforming asset over and above the accounting loss. Credit risk can be further categorized on the basis of reasons of default. For instance the default could be due to country in which there is exposure or problems in settlement of a transaction. Credit risk not necessarily occurs in isolation. The same source that endangers credit risk for the institution may also expose it to other risk. For instance a bad portfolio may attract liquidity problem (State Bank of Pakistan, 2003).

2.1.2. Market or Systemic risk:

Market or systemic risk is the risk of change in net asset value due to changes associated with systematic factors, that is, the underlying economic factors such as interest rates, exchange rates, and equity and commodity prices. However, banks carry only small net exposures to market risk from trading activities. The market risk capital charge for the major banks using their internal models has been around one per cent of capital over the past years. In the context of the Basel II Capital Framework, regulators will require banks accredited to use the more advanced Basel II approaches to hold specific regulatory capital against interest rate risk in the banking book based on their internal risk measurement models. Regulators' decision reflects the fact that this risk can be a substantial one, it is quantifiable, and there is substantial homogeneity in how it is managed among the larger commercial banks and there is evidence of active hedging, if not actual trading, of this risk on commercial banking books. In view of the significance of this risk, continuing margin pressures and the ease with which the risk can be hedged or traded, interest rate risk on the banking book is likely to be the subject of increasing supervisory focus globally. Financial institutions like commercial banks may be exposed to market risk in a variety of ways. Market risk exposure may be explicit in portfolios of securities/equities & instruments that are actively traded. Conversely it may be implicit such as interest rate risk due to mismatch of loans & deposits. Besides, market risk may also arise from activities categorized as off balance sheet items. Market risk is therefore potential for loss resulting from adverse movement in market risk factors such as interest rates, foreign exchange rates, and equity and commodity prices. (State Bank of Pakistan, 2003)

2.1.3 Strategic risk:

Strategic risk is defined as external risks to the viability of a banking institution arising from unexpected adverse changes in the business environment with respect to the economy, the political landscape, regulation, technology, social mores and the actions of competitors. These risks can manifest themselves in the form of lower revenues due to reduced demand for products and services and higher costs or cost inflexibility due to inability to reduce fixed costs quickly in line with lower-than-anticipated business volumes. Banks have been taking a cautious approach to regional expansion as they seek to identify sources of competitive advantage in other markets. There is general acceptance that strategic risk should be included in any comprehensive economic capital model. Capital is needed to enable a banking institution to ride out temporary changes in market conditions and to allow it sufficient time to adapt its business model to more permanent changes in the competitive environment. However, the absence of sufficient meaningful historical data makes measurement a problem, particularly with regard to the low probability, high potential impact strategic loss events that are a major concern to banking institutions. Some blend of subjective stress testing with statistical methods where available data permit might be the best that can be achieved (State Bank of Pakistan, 2003).

2.1.4. Interest rate risk:

Interest rate risk is the risk that arises for bond owners from fluctuating interest rates. It is a risk to the earnings or market value of a portfolio due to uncertain future interest rates. Interest rate risk should be managed where fluctuations in interest rate impact on the organization's profitability. In an organization where the core operations are something other than financial services, such financial risk should be appropriately managed, so that the focus of the organization is on providing the core goods or services without exposing the business to financial risks. An adverse movement in interest rate risk may potentially: increase borrowing costs for borrowers; reduce returns for investors; reduce profitability of financial services providers such as banks; and reduce the net present value (NPV) of organizations due to the effect of changes in the discount rate (interest rate) on the value of financial instruments, hedges and the return on projects (Larossa, 2008).

2. 1.5 Risk management practices adopted by commercial banks

The objective of risk management is the same as for different types of risk that is to find out the extent of the financial institution's risk exposure; to understand what drives it, to allocate capital against it and identify trends internally and externally that would help predicting it. The concern for management of risk must start from the top management. Effective board and senior management oversight of the bank's overall market risk exposure is cornerstone of risk management process. Both the board and senior management should establish an organizational culture that places a high priority on effective operational risk management and adherence to sound operating controls. The board should establish tolerance level and set strategic direction in relation to risk. Such a strategy should be based on the requirements and obligation to the stakeholders of the institution. While the board gives a strategic direction and goals, it is the responsibility of top management to transform those directions into procedural guidelines and policy document and ensure proper implementation of those policies. The other components of financial institution risk management framework should cover organizational structure, systems and procedures for identification, acceptance, measurement, monitoring and control risks. (State Bank of Pakistan, 2003)

The first element of risk management strategy is to determine the level of market risk the institution is prepared to assume. The risk appetite in relation to market risk should be assessed keeping in view the capital of the institution as well as exposure to other risks. Once the market risk appetite is determined, the institution should develop a strategy for market risk-taking in order to maximize returns while keeping exposure to market risk at or below the pre-determined level. While articulating market risk strategy the board needs to consider economic and market conditions, and the resulting effects on market risk; expertise available to profit in specific markets and their ability to identify, monitor and control the market risk in those markets; the institution's portfolio mix and diversification. Finally the market risk strategy should be periodically reviewed and effectively communicated to the relevant staff. There should be a process to identify any shifts from the approved market risk strategy and target markets, and to evaluate the resulting impact. The Board of Directors should periodically review the financial results of the institution and, based on these results, determine if changes need to be made to the strategy (State Bank of Pakistan, 2003).

The institutions should formulate market risk management policies which are approved by Board of Directors. The policy should clearly delineate the lines of authority and the responsibilities of the Board of Directors, senior management and other personnel responsible for managing market risk; set out the risk management structure and scope of activities; and identify risk management issues, such as market risk control limits, delegation of approving authority for market risk control limit setting and limit excesses. (State Bank of Pakistan, 2003)

A liquidity risk management involves not only analyzing banks on and off-balance sheet positions to forecast future cash flows but also how the funding requirement would be met. The later involves identifying the funding market the bank has access, understanding the nature of those markets, evaluating banks current and future use of the market and monitor signs of confidence erosion.

risk management practices reduce the volatility in banks' financial performance, namely operating income, earnings, firm's market value, share return and return on equity. Schroeck (2002) proposes that ensuring best practices through prudent risk management result in increased earnings.

Despite the voluminous studies on the link between risk management practices and companies performance, studies providing empirical evidence on the link between risk management practices and bank financial performance, to our knowledge, has been somewhat limited. Among these studies, Drzik (2005) shows that bank investment in risk management during 1990s helped to reduce earnings and loss volatility during the 2008 recession. In the same vein, the study by Pagach & Warr (2007) examined factors that influence the firm level of enterprise risk management (ERM) and found that the more leveraged the firms were, the more volatile were their earnings. Using the hazard model to examine factors that influence firms' adoptions of the Enterprise Risk Management, the study documented firms that were more levered, more volatile earnings, and poorer stock performances, were more likely to adopt the ERM. In addition, greater CEO's option and increasing stock portfolio volatility also increase the likelihood for the adoption of ERM. The study suggests that the ERM is being adopted beyond the basic risk management purpose, with offsetting CEO risk taking incentives and seeking to improve operating performance as other main reasons to adopt ERM. A different dimension of analyzing the relationship between risk management and financial performance is offered by Angbazo (1997) by testing the influence of risk factors in determining banks' profitability, the study finds that default risk is a determinant of banks' Net Interest Margin (NIM) and the Net Interest Margin of super-regional banks and regional banks are sensitive to interest rate risk as well as default risk. The study by Saunders & Schumacher (2000) provides further support to the importance of controlling risks to financial performance. By investigating the determinants of Net Interest Margin for 614 banks of 6 European countries and United States from 1988 to 1995, the study finds that interest rate volatility has a positive significant impact on the banks profitability.

2 .4 Empirical Studies

A 2004 survey by the Central Bank of Uganda explored the extent to which banking institutions in Uganda had adapted to demands for new approaches to managing banking issues that lay emphasis on risk, identification, measurement, monitoring, and control/mitigation. The survey brought out a number of gaps that demonstrated the need for enhancing risk management in financial institutions (CBOU, 2004). In 2008, the bank of Uganda carried out Basel II implementation survey to assess the status of Ugandan banks vis-à-vis the requirements of Basel II. The survey results indicated a mixed level of preparedness of the Ugandan banking sector as far as Basel II implementation is concerned. The international banks, drawing on the support of their parent groups were found to be in better state of preparedness compared to local institutions. There were also challenges in meeting requirements of Basel II that would impact on all banks. (Stulz, 2006) showed why enterprise risk management creates value for shareholders. It was clear from the article that additional research is needed to help with the implementation of enterprise risk management. In particular, it has become clear in implementations of enterprise risk management that a more complete understanding of the distribution of firm value is required. Though correlations between different types of risks are essential in measuring firm-wide risk. existing research provides little help in how to estimate these correlations when implementing enterprise risk management. Firms find hard to quantify risks to be extremely important. Examples are reputation and strategic risks. At this point, there is little research that helps practitioners in assessing these risks, but much gain could be made by understanding these risks better even if they cannot be quantified reliably (Nocco & Stulz, 2006). Kimeu (2006), in his survey on credit risk management techniques of unsecured bank loans of commercial banks in East African Community (EAC), he found out majority 86.7 percent of commercial banks indicated credit and liquidity risks as their most important risks. He found majority of the banks have credit management policies as a basis for objective credit risk appraisal and formulation of those policies was undertaken by the top management. He found out that majority of the respondents 93.3 percent used statistical method of credit assessment in screening loan applications. He also found that majority of the banks used on job training to sensitize their employees on credit risk. The study revealed majority of the respondents 86.7 percent indicated that improved credit appraisals is the considered as the most responsible factor for their improved financial performance.

Ngare (2008) conducted survey of credit risk management practices by commercial banks in Uganda. The study revealed that most banks used qualitative loan assessment methods to make credit granting decisions and adverse trading by the borrowers were the main sources of credit risk among the banks in Uganda. In addition, most banks were found to use loan diversification, banks guarantees and bank covenants to mitigate credit risk. Njiru (2003) in his study on risk management by Co-operative Societies in wakiso district found out that none of them used quantitative methods to evaluate the credit worthiness of their members and that they used qualitative methods only. He concluded that most of the cooperative societies did not manage their credit risk properly leading to high rate of default and therefore not being in a position to lend to members promptly.

Tugume (2011) evaluated the impact of credit risk on performance commercial banks in Uganda. Financial ratios as measures of bank performance and credit risk were collected from the annual reports and accounts of sampled banks from 2004-2008 and analyzed using descriptive, correlation and regression techniques. The findings revealed that credit risk management has a significant impact on the general performance of commercial banks in Uganda. It concluded that banks' profitability/performance is inversely influenced by the levels of loans and advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress.

2.5. Conclusion

Issues of risk management in banking sector have greater impact not only on commercial banks butalso on the economic growth. When banks manage their risk better, they will get advantage to increase their performance (return). Better risk management indicates that banks operate their activities at lower relative risk and at lower conflict of interests between parties. These advantages of implementing better risk management lead to better banks performance. Better bank performance increases their reputation and image from public or market point of view. The banks will get lower cost of risky capital and other sources of funds. The banks also get more opportunities to increase the productive assets, leading to higher bank profitability (Cebenoyan & Strahan, 2004). The central bank of Uganda survey revealed challenges in risk management practices within the local banking industry. The literature review confirms that there have been considerable research efforts in the area of risk management. Locally, most of the studies are based on various tools and techniques of credit risk management used by different institutions (Ngare 2008; Njiru 2003). These studies have not covered the other types of risk encountered by commercial banks and this presents a knowledge gap that this study intends to fill.

CHAPTER THREE
METHODOLOGY

3.0. Introduction

This chapter presents the research instruments, which will be used to collect data on risk management on performance of commercial banks and the researcher will focus on the research design, target population, sample size, sampling procedures, sources of data, data processing, presentation, data analysis and presentation, anticipated limitations of study and ethical considerations.

3.1. Research design

The study will take both qualitative and quantitative approaches, with a cross-sectional survey design. It will be quantitative in that it will be based on variables measured with numbers and analyzed using descriptive statistics. It will be qualitative in that the analyzed data will be interpreted by words in order to give meaning to the presented numerals. Using this approach, the study will derive and describe findings on risk management and performance of commercial banks. The study will be correlation with great interest in relating the variables of interest. The study will also be used as a survey because it involves a large number of respondents from whom data will be collected using questionnaires.

3.2. Target population

The study will involve 66 respondents who are staffs from risk control department, staffs from finance department, Staffs from marketing department, accounting section and some senior management. Special considerations will be given to the knowledge and skills of the respondents in relation to the variables under study and the for gender observance.

3.2.1 Sample size

The sample size will be 50 and is determined by Morgan and Krejcie table (1970, as cited in Amin, 2005) (Appendix VI). This therefore meant that the samples will include40 respondents.

We shall apply Slovene's Formula to compute and its given by

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

Where N – Population Size

e2- level of significance where is fixed at 0.5

N= required sample size

50÷ 1+0.5

N= 50.02

N=50

Table 3.1: Distribution of sample size employee level

Respondents	Target population	Sample size
Management executives	10	10
Loan officers/credit risk managers	15	15
Employees	25	25
Total	50	50

Source: Secondary Data, 2014

3.3.1 Sampling method

The study focused at raising a sample size of 50 respondents. To achieve this size of sample population from the study, the study undertook a non-probability sampling approach. This included a non-random sampling method which was premised on employing purposive sampling to select staff of crane bank Ntungamo branch because they host the remaining category of employees within the bank, the researcher targeted at getting 50 respondents; 10 from management executive, 15 loans officer, 25 other employees. Usually, the sample being performance and credit risk management of commercial banks .Audit reports and financial statements of the institute of Bankers and Bank of Uganda covering a period of 2010-2012.

3.5 Data collection Instruments

3.5.1 Questionnaire, the data collection instrument will be a self-administered questionnaire on appointment with the intended respondents. This will be used to seek responses from credit staffs and employees of the bank. It will be designed in the Liker scale formant (strongly agree, agree, disagree and strongly disagree).

3.5.2 Interview guide, this was used to collect data from management staffs of the bank. These acted as the key informants of the study as they were thought to have a lot of information regarding credit risk management and financial performance

3.5.3 Documentary analysis checklists will also be used to get the available information and its supplementary method of reviewing documents like reports, minutes and letters useful in developing understanding of the study.

3 .6 Measurement of Variables

The inferential statistics was applied to establish a casual effect relating independent variables to the dependent variable. A linear regression of financial performance versus credit risk management was applied to establish the effect between variables. The model treats financial performance of commercial banks as the dependent variable while the independent variable is credit risk management.

3.7 Validity and Reliability:

Before data collection, the validity and reliability of the instruments were ascertained. A pre-test was conducted on the instruments.

3.6.1 Validity:

Validity refers to the extent to which instruments gather relevant data for the study, Amin (2005). Validity is necessary to ensure that the right instruments are constructed to collect relevant data through measuring the relevance, precision and accuracy of the instrument. Three methods of validation of instruments can be used: construct, face and content validity. With regard to construct validity, the process of validating the instruments was constructed with the help of an expert (the researcher's supervisor) who edited them and provided constructive criticisms. With face validity, the supervisor looks at them and recommends whether they are worth. Finally with content validity, the Content Validity Index (CVI) was used to compute the respective validities from the instruments. The Content Validity Index (CVI) is as follows:

$$CVI = \frac{\text{Number of relevant items}}{\text{Total number of items}}$$

If the values of the Content Validity Index (CVI) are greater than 0.60 then the instrument is valid. However, if the values of the Content Validity Index are below 0.60 then there is a need to revise the items of the instrument accordingly to ensure their validity.

For the questionnaire, the CVI was 0.90 indicated as such:

$$CVI= \frac{36}{40} = 0.90$$ meaning that the questionnaire is valid

For the interview guide the CVI was 0.98

$$CVI= \frac{10}{14} =0.71$$ meaning that the interview guide is valid

3.8 Ethical Considerations

The researcher employed confidentiality in the course of data collection for the information to be given. Here the researcher was anxious not to explode what key informants, customers and other several participants said. Anonymity of respondents by not disclosing their identities were also employed to protect third parties or pseudo names.

The information that was collected strictly for learning purposes; the researcher acknowledged the assistance received from various individuals such as publicly known personnel. The researcher observed the principle of voluntary participation.

3.9 Data Processing and Analysis

The response rate was carried out using tables, Percentages and frequencies as this was relatively simple. After dater was collected, the researcher got the percentages of the response and recorded the response rate in relation to the phenomenon. By use of the response rate, the researcher analyzed the data and found out the extent to which the credit risk management helped the bank realize its purpose of increasing the financial performance and making conclusions from the analysis.

CHAPTER FOUR

RESULTS AND FINDINGS FROM THE STUDY

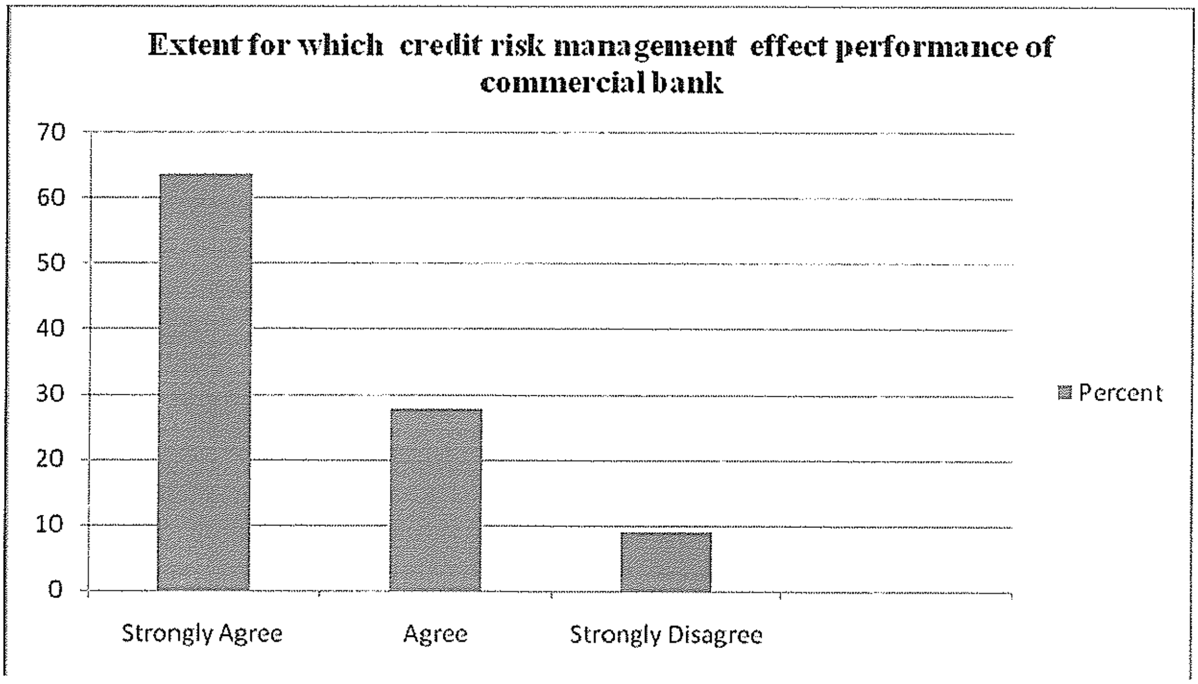
4.0 Introduction

This chapter presents the analysis and discussion of the data collected in the field. The objective of this study was to establish if there is an effect of credit risk management on the financial performance of commercial banks in Uganda.

4.1 Credit Risk Management

Credit risk management affect financial performance of commercial banks. From the findings, below of the respondents strongly agreed that financial performance of commercial banks is affected by credit risk management.

Figure 4.2.1 Extent of agreeing that Credit Risk Management affect Financial Performance of Banks

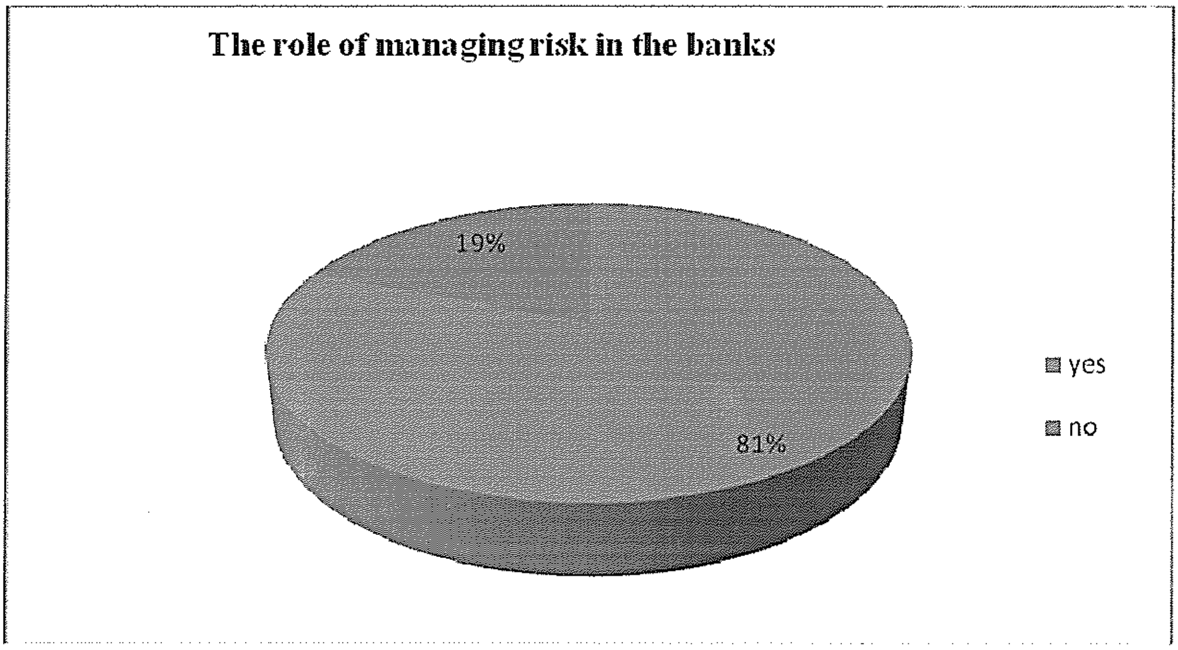


Source: Research Findings

The respondents were requested to indicate the extent to which credit risk management affect financial performance of commercial banks. From the findings, majority above 63% of the respondents strongly agreed that financial performance of commercial banks is affected by credit risk management. 27.7% of the respondents agreed that commercial banks needs to manage well credit risk in order to ensure the financial performance while 9% of the respondents which is the minority disagree the effect of credit risk management on the financial performance of commercial banks. This shows that the commercial banks needs to manage effectively credit risk for a purpose of enhancing financial performance of those financial institution.

4.3 Whether is important of managing Credit Risks into your Bank

The pie chart important of managing credit risks



Source: Research Findings

The figure above shows how the respondents think whether it was important for commercial banks to manage risk. From the findings it was found out that the majority of the respondents confirmed that it was crucial to manage credit risk as indicated by 81% while 19% of the respondents confirmed that it was really not crucial for the banks to manage credit risk.

Regarding the importance of managing credit risk the study indicated that these reduce cash loss and ensures the organization performs better increasing the return on equity. It was found that it helps the organization to operate more efficiently and more effectively.

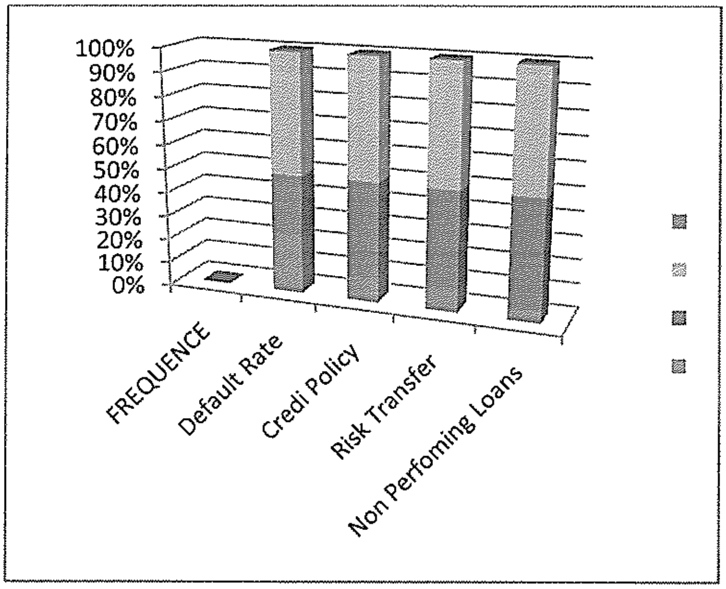
4.4. Practices used by commercial banks in credit risk management

The table showing the Practices used by commercial banks in credit risk management

FREQUENCE	YES	NO	TOTAL	PERCENTAGE
Default Rate	25	25	50	0.5
Credi Policy	10	40	50	0.2
Risk Transfer	10	40	50	0.2
Non Perfoming Loans	5	45	50	0.1

Source: Researcher Findings

GRAPH BELOW IS SHOWING THE PRACTICES USED BY COMMERCIAL BANKS IN CREDIT RISK MANAGEMENT



From the findings in the above table the study found that the majority 50%, 20%, 20%, 10% of the respondents confirmed that banks adopted default rate, credit policies, and Non performing loans as practices used by commercial bank to measure credit risk management.

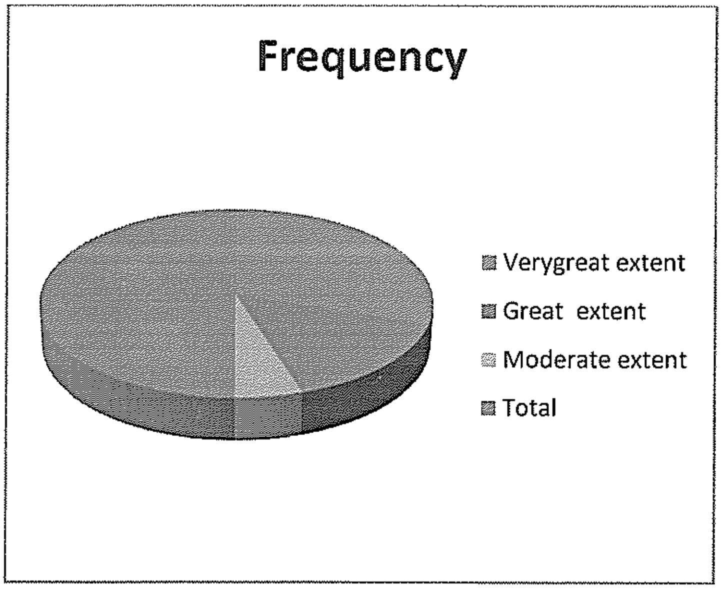
4.2.4 Extent to which commercial banks in Uganda consider default rate in credit risk management

Table showing commercial banks defaults rate in credit management

Response	Frequency	Percentage (%)
Verygreat extent	30	0.60
Great extent	15	0.30
Moderate extent	5	0.10
Total	**50**	**100**

Source: Research Findings

THE PIE CHART BELOW SHOWS COMMERCIAL BANKS DEFAULT RATE IN CREDIT MANAGEMENT



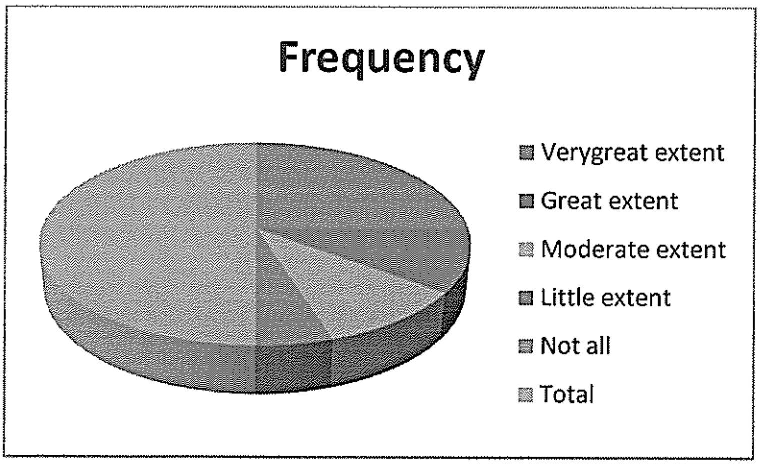
The respondents were requested to indicate to which extent commercial bank in Uganda consider default rate in credit risk management. From the findings the majority said that their banks consider default rate in credit risk management at 60% while 30% and 10% said that they consider default rate greatly and moderately. This implied that default rate was used as a credit risk management practices in commercial banks in Uganda.

4.2.5 Extent does your bank consider credit polices

The table showing the Extent to how the bank consider credit polices

Response	Frequency	Percentage (%)
Verygreat extent	25	0.50
Great extent	10	0.20
Moderate extent	10	0.20
Little extent	5	0.10
Not all	0	0.00
Total	50	100

THE PIE CHART BELOW SHOW THE EXTENT HOW THE BANK CONSIDER CREDIT POLICIES



Source; Primary date

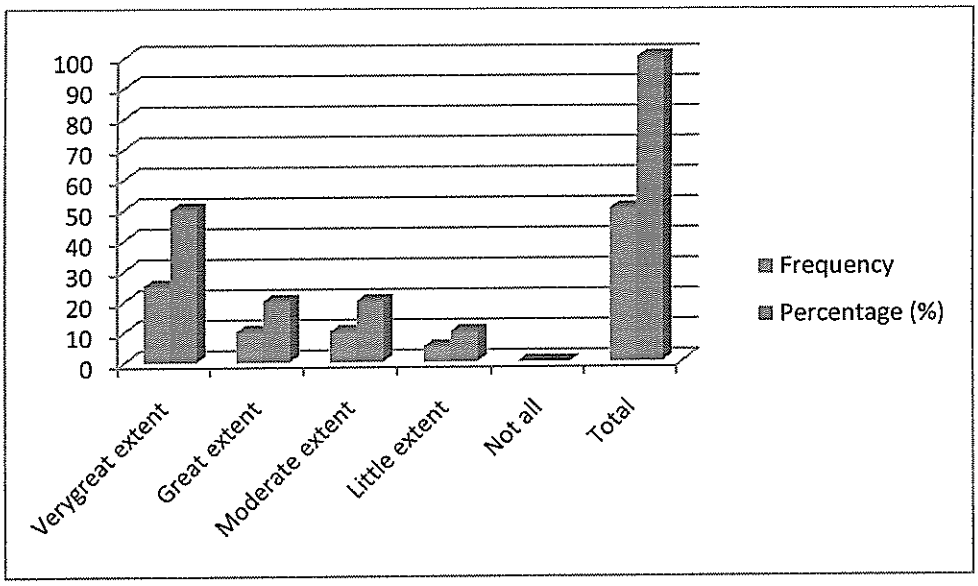
The respondents were requested to indicate the extent to which commercial bank consider credit scoring mechanism process in risk management. The findings shown that majority of the respondents 50% indicated that commercial banks in Uganda consider credit scoring mechanism in their process of risk management to a very great extent. 20% indicated that commercial banks consider credit scoring mechanism process at great extent and moderate extent. Surprisingly 10% of the respondents indicated that credit scoring mechanism process is considered in risk management at a little extent.

4.2.6 Extent to which commercial Bank consider Credit policies

Table showing the extent to which banks consider credit policies

Response	Frequency	Percentage (%)
Verygreat extent	25	50
Great extent	10	20
Moderate extent	10	20
Little extent	5	10
Not all	0	00
Total	50	100

The graph below shows the extent to which banks consider credit policies



The respondents were requested to indicate the extent to which commercial bank consider credit analysis and assessment process in risk management. The findings shown that majority of the 32 Respondents 50% indicated that commercial banks in Uganda consider credit analysis and assessment in their process of risk management to a very great extent. 20% indicated that commercial banks consider credit analysis and assessment process at a great extent. 20 % of the respondents indicated that credit analysis and assessment process is considered in risk management at a moderate extent while 10% consider the process at a little extent.

4.2.7 Extent to which commercial Banks consider risk transfers

The table showing to what extent does commercial Banks consider risk transfers?

Response	Frequency	Percentage (%)
Verygreat extent	25	0.50
Great extent	15	0.30
Moderate extent	10	0.20
Little extent	0	0.00
Not all	0	0.00
Total	50	100

Source: Research Findings

The respondents were requested to indicate the extent to which commercial bank consider Risk monitoring process in risk management. The findings shown that majority of the respondents 50% indicated that commercial banks in Uganda consider credit policies in their process of credit risk management to a very great extent 30% indicated that commercial banks considered, at a great extent 20 % of the respondents indicated risk transfer is considered in credit risk management at a moderate extent. s

4.3 Findings on non loan performance

Table 4.3 Showing nonloan perfomance.

Response	Frequency	Percentage (%)
Strongly Agree	30	60
Agree	10	20
Not Sure	10	20
Dis Agree	NIL	NIL
Total	50	100

Source; Primary data.

From table 4.5, 20% of the respondents are not sure and agree 20% while 60% of the respondents agree and strongly agree that to some extent credit risk is minimized by reducing connected party lending, renegotiated exposure to related parties as well as reducing exposure to the economic sector. This is so because the banks aims at reducing defaults of clients and want always to be in a better position of recurring on its services.

However, the respondents in their opinion gave the factors that have hindered the credit risk minimization and they cited the following factor to include;

- Failure to recognize early warning systems for potential loss and problems
- Poor and inefficient allocation of resources, especially failing to fund credit risk reduction ventures.
- Poor information systems especially on potential consequences, there is a backward thinking organization culture which hinders managers from identifying, measuring and assessing the risk to the bank.

4.3.1 Findings on when the bank reminds a defaulting customer.

Table 4.3.2 Showing when the bank reminds a defaulting customer

Respondent	Frequency	Percentage
Immediately	10	20
Every month	15	30
Every after a month	20	40
Not at all	5	10
Total	50	100

Source; primary data.

20% of the respondents indicated that the bank reminds a defaulting customer immediately after the due date but the other 10% say that the bank does not remind the defaulting customer.40% indicated that every after a month while the 40% indicated that every after two month.

The large percentage of 40% reveal that the bank takes a long period to remind the customers and consequently this could be one of the reasons why the loan defaulters take long to pay back loan obligations. In this case, they find themselves in financial problems and fail to pay back loan obligations.,

Thus the level of failure of borrowers to honor debt obligations is still high and the bank has lost out on its finances.

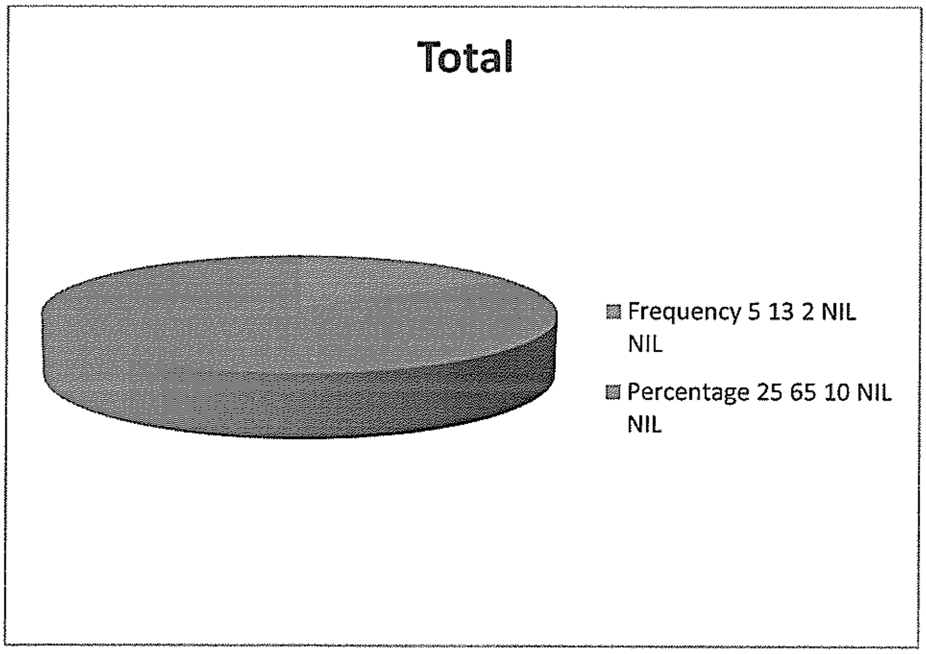
4.3.3.Findings on the future banking and increase in customer base in line with effective credit risk management.

Table 4.3.3 Showing the future banking and increase in customer base in line with effective risk management.

Response	Frequency	Percentage
Strongly Agree	5	25
Agree	13	65
Not Sure	2	10
Disagree	NIL	NIL
Strongly Disagree	NIL	NIL
Total	20	100

Source; primary data.

THE PIE CHART BELOW SHOWS THE FUTURE BANKING AND INCREASE IN CUSTOMER BASE IN LINE WITH EFFECTIVE RISK MANAGEMENT.



From table 4.6. 90% of the respondents agreed and strongly agreed and only 10% are not sure that future banking and customer base will increase in line to effective credit risk management. This is so because customer switching will reduce if they are given secure services by Barclays bank and as a result the future of banking will be promising and the customers will continue increasing with time.

4.1 Findings on the financial performance of Crane Bank

In normal circumstances, financial performance is measured by the company's audited financial statements so as to arrive to profits and losses there in.At Barclays bank kampala road branch, the financial statements reflect an increase in the level of profits of the company.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0. Introduction

This chapter covers summary of the study, conclusions and recommendations. It further highlights the limitations faced during the study and indicates possible areas for further research.

5.1. Summary

The general objective of this study was to determine the relationship between risk management and performance of commercial banks in Uganda. This study also sought to identify the risks faced by commercial banks,

To establish the relationship between credit risk management and performance of commercial banks;

To investigate the relationship between Risk management and financial performance of Commercial Banks

To determine the risk management practices adopted by commercial banks. Questionnaires were administered to different individuals through a drop and pick approach. A 79.8% response rate was realized.

Credit risk

Credit risk management and performance of commercial banks, credit risk is the most expensive risk in financial institutions and its effect is more significant as compared to other risk as it directly threatens the solvency of financial institutions. The magnitude and level of loss caused by the credit risk as compared to other kind of risks is severe to cause high level of loan losses and even bank failure.

Market risk

Market risk is the risk of change in net asset value due to changes associated with systematic factors, that is, the underlying economic factors such as interest rates, exchange rates, and equity and commodity prices. However, banks carry only small net exposures to market risk from trading activities. The market risk capital charge for the major banks using their internal models has been around one per cent of capital over the past years

Interest rate

Interest rate risk is the risk that arises for bond owners from fluctuating interest rates. It is a risk to the earnings or market value of a portfolio due to uncertain future interest rates. Interest rate risk should be managed where fluctuations in interest rate impact on the organization's profitability. In an organization where the core operations are something other than financial services, such financial risk should be appropriately managed, so that the focus of the organization is on providing the core goods or services without exposing the business to financial risks.

Data was analyzed using Microsoft Office Excel and presented in graphs and in tabular form. Respondents were asked about the types of risks prioritized as critical. 34.4% of the respondents agreed that reputation risk was considered as the most critical followed by credit risks with the rate of 32.8%. Operational risk was also considered as very critical at the rate of 34.4%. When the two ways of ranking are considered, prioritized risks are credit risks 68.0 percent, operational risks 68 percent, reputation risks 64.0 percent and compliance risks 64.0 percent. Table 10 presents the analysis of prioritized critical risks.

Risk management is very crucial in any banking industry as the survival and success of financial institutions depend on how they manage risks and risk management greatly improves the operations of commercial banks which in turn help in risk mitigation. Commercial banks are in the risk business and risk management is cornerstone of banking business (Hussien et al, 2010). Various studies have stated that good risk management practices can generally improve efficiency leading to improved financial performance. However, risk management is biggest game where every financial institution must be interested in and banks need to understand this and manage their risk according to their risk appetite and capacity.

5.2. Conclusions

In line with the results of this study, it can be concluded that there is a significant relationship between risk management and performance of commercial banks. The stability of commercial banks is very important for any economy. Risk management by commercial banks plays a vital role in ensuring commercial banks stability and the economic stability. Progress has been made in risk management by commercial banks as revealed by the study as most of the banks have risk management structures/policies/guidelines in place. This can partly be attributed by enhanced regulation and also realization of the banks on the importance of risk management. However there is need to have all the banks establish the necessary risk management structures. Improvement in terms of quality and compliance to global standards is necessary in order to remain competitive. However, commercial banks need to be encouraged to invest in risk management in terms of establishing the necessary systems, staff training and research so as to be up to date on this area.

5.3. Recommendations

Depending on the findings of this study commercial banks need to identify and assess risks more accurately because Once a risk is identified on a high level, further internal data can be analyzed to figure out where the source of the risk is. Finally appropriate measures can be chosen in accordance with the specific needs of the bank and this can be considered as the first step to mitigate risks.

Since there was a positive and significant relationship between risk management and performance of commercial banks, there is need for these commercial banks to enrich and empower their risk management committee, credit committee and audit function since these are very instrumental in the banking business.

This will in turn bring about better performance in terms of better profitability, earnings and cash flows. Commercial banks also need to manage employee turnover because the results show that the majority of employees was newly employed. Furthermore, the regulator and the ministry of finance should as a statutory requirement demand for compliance by commercial banks to global standards in risk management as stipulated by Basel committee over a given period of time.

5.5. Limitations of the study

Various challenges were encountered during this study. The first challenge was lack of resources to carry out more detailed research. Detailed research also requires ample time which was not available as I was preparing for tests and final exams in order to avoid retaking some course units. Availability of time and resources may have led to improved conclusion.

Some of the target respondents did not provide answers to all the questions asked due to fear of revealing information to competitors even though the research was purely for academic purpose this limited the response rate. Some questions in the questionnaire were not answered denying the study required data. The weakness associated with the use of questionnaires cannot be ruled out. Respondents might have had difficulty in understanding certain questions and either left them blank or filled irrelevantly.

5.4. Areas of Further Research

This research was a survey on risk management and performance of commercial banks in Uganda. There is need for further detailed studies in the following: Relationship between risk management and performance of commercial banks Uganda. The study can be done to establish the relationship between risk management, performance and corporate governance of commercial banks in in Uganda. This is a wide scope research but is important to establish the nature of relationship between the three variables. Risk management study need to be widened to other sectors of the economy such as insurance and manufacturing companies in order to establish the level preparedness and the improvement required and any lessons that can be derived.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Dear Respondent

I, AYEBAZIBWE ASONS a student of Kampala International University pursuing a Bachelor's Degree in Business Administration (finance and banking) conducting a research on risk management on performance of commercial Banks in Uganda. You are kindly requested to carefully and honestly give your opinion without reservation. The researcher will hold confidential any information given and under no circumstance will any one's name appear as an individual. I kindly therefore request that you fill in the questions as instructed respectively and the information will be used only for academic purposes.

Tick the appropriate box according to you where applicable. Fill in the information in the space provided.

Section A: Respondent's particulars.

1. Gender :

   Male ☐ Female ☐

2. Age bracket

   20-25 ☐ 26-30 ☐ 46-50 ☐

   31-35 ☐ 36-45 ☐ 50 and above ☐

3. Marital status:

   Single ☐ Married ☐ Divorced ☐ Widower ☐

4. For how long have you worked in this Bank?

   0-3 years ☐ 4-5 years ☐ 5- 6 years ☐ 6 and above ☐

5. What is your qualification?

Certificate ☐ Degree ☐ Post graduate ☐

Diploma ☐ Masters ☐ Others ☐

SECTION B: Risks in commercial banks.

6. Are you aware of risks in commercial banks?

Yes ☐ No ☐

If yes, the following are the risks faced by commercial banks, please tick the appropriate box depending on your level of agreement.

1. Strongly agree 2. Agree 3. Not sure 4. Disagree 5.strongly disagree

Summary of General Objectives

To establish the relationship between credit risk management and performance of commercial banks;

To investigate the relationship between Risk management and financial performance of Commercial Banks;

To determine the risk management practices adopted by commercial banks.

N.B for the following sections tick your level of agreement or disagreement as appropriate to your view

1) Strongly agree
2) Agree
3) Not sure
4) Disagree
5) Strongly disagree

SECTION: A

LEVEL OF CREDIT RISK OF CREDIT RISK MANAGEMENT AND PERFORMANCE OF COMMERCIAL BANKS

OPTIONS	1	2	3	4	5
1) Crane Bank rates are considered while drafting lending interest rates at the Branch?					
2) Lending interest rates at the branch?					
3) Roles of risk management and performance Commercial Banks?					
4) Effective transfer of funds from ultimate savers to borrowers?					
5) Improvement of prudential oversight of asset quality?					
6) Establish Set Minimum Standards?					
7) Enhances The Ability of Investors?					
8) Catalyst foe economic growth?.					
9) Risk management strategies adopted by commercial banks?					
10) Adequate monitoring of Commercial Banks Activities?					

SECTION B:

INVESTIGATION OF THE RELATIONSHIP BETWEEN RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS;:

OPTIONS	1	2	3	4	5
1) Risk management strategies adopted by commercial banks?					
2) Determination of the level of market risks the institution?					
3) Formulation of risk management policies?					
4) Adoption of a sound internal lending policy?					
5) Sound credit policy?					
6) Proper identification of the sources of risks?					
7) Adequate monitoring of commercial banks activities?					
8) Effective transfer of funds from ultimate savers to borrowers					
9) Improvement of prudential over sight of asset quality					
10) Formulation of risk management policies					

SECTION D

DETERMINATION OF RISK MANAGEMENT PRACTICES ADOPTED BY COMMERCIAL BANKS.

OPTIONS	1	2	3	4	5
1) Loan Officers Always Review Interest Rates For Loans In Their Portfolio?					
2) Lending Rates Are Higher Than Those Set By The Central Bank?					
3) The Branch Has Loan Policies Procedures And Guidelines Are In Places?					
4) Are Interest Rate Decision Taken By The Central Bank And Reported By The Same To All Commercial Banks?					
5) Do Low Interest Rates Favor Client To Take Up Loan?					
6) Have High Interest Rates Contributed To Poor Loan Repayment Rates ?					
7) Lending Rates Effect Clients Willingness To Repay The Loan ?					
8) The Branch Has Lost Clients To Other Financial Institutions Due To High Lending Interest Rates?					
11) Determination of the level of market risks the institution?					
12) Formulation of risk management policies?					

APPENDIX III

PLAN FOR THE DATA PRESENTATION

Table 1

Respondents	**No of questionnaires**	**No of questionnaires returned**	**balance**
Board of directors			
Senior management			
Other employees			
Third parties			
TOTAL			

Source: primary data

Table 2: age of characters of the respondents

Age group	**Frequency**	**Percentage**
20-30		
30-39		
40-49		
Above 50		
TOTAL		

Source: primary data

Table 3: respondents on whether loans officers always review interest rate for loans in their portfolio.

RESPONSES	**FREQUENCY**	**PERCENTAGES**
Strongly agree		
Agree		
Not sure		
Disagree		
Strongly agree		
TOTAL		

Source: primary data

Table 4: Response on Whether Lending Rate Are Higher Than Those Set by Crane Bank

RESPONSES	**FREQUENCY**	**PERCENTAGES**
Strongly agree		
Agree		
Not sure		
Disagree		
Strongly agree		
TOTAL		

Source: primary data

7. Does your bank have well developed risk management structures?

No ☐ Formal stage ☐ Informal ☐ Yes ☐ Not sure ☐

8. Does your bank conduct independent review of risk management activities carried out?

No ☐ Not sure ☐ Yes ☐

9. Which type of techniques does your bank use to measure and manage risk?

Qualitative ☐ Quantitative ☐ Both ☐

10. Which of the following risk measurement techniques are used at your bank?

Scenario analysis ☐ Value at risk ☐ Stress tests ☐

Others (Please Specify): ... ...
... ...
... ...

THANK YOU FOR YOUR TIME.

APPENDIX II: ESTIMATED TIME FRAME

Activities	TIME (months)				
	February	March	April	May	June
	1Week	3 Days	1 Week	4 Days	2015
	2015	2015	2015	2015	
Pilot study					
Study analysis					
proposal design					
Proposal development					
Submission of proposal for approval					

APPENDIX III: ESTIMATED RESEARCH BUDGET

Items	Quantity	Unit Cost	Amount (Ugx)
Ream of paper		16,000	32,000
Bic Pens		5,000	2,000
Pencils		300	1,200
Box files		4000	8,000
Note books		1,000	2,000
Transport			35,000
Preparing questionnaires interview guide			40,000
Editing data, printing and binding		150,000	150,000
Airtime		20,000	20,000
Motivation and refreshment			50,000
Other expenses		50,000	50,000
Total			390,200