RISK MANAGEMENT AND PERFORMANCE OF COMMERCIAL BANKS CASE STUDY OF HOUSING FINANCE BANK

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DECLARATION

I, Achieng Esther hereby declare that this is my original work and has never been presented to any other educational institution for any award.

Signature ..... **DATE**.....

ACHIENG ESTHER

(STUDENT)

APPROVAL

This is to certify that the research of Achieng Esther has been under my supervision and is now ready for submission to the college of Economics And Management for the award of the bachelor's degree of business administration of Kampala International University.

Signature ..... Date 27/05/2014

MR. Baluku Johnson

(Academic Supervisor)

DEDICATION

I dedicate my research report to my parents mr Owere sirama and Mrs. Magrate sirama whose effort towards my natural and academic life has been enormous, I salute you, and may the almighty God bless you.

ACKNOWLEDGEMENT

I wish to thank the almighty God for keeping me alive and providing me with the capacity and courage to go through the three-year course successfully.

I appreciate the work done by my supervisor Mr. Baluku Johnsom, Thank you for all your guidance, knowledge, advice, and time you accorded to me during the completion of this research report.

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ABBREVIATIONS / ACRONYMS

ALM Asset and Liability Management Manual

BOU Bank of Uganda

CAMEL Capital Adequacy, Assets Quality, Management, Earnings and Liquidity

HFB- Housing Finance Bank

IT Information Technology

MIS- Management Information Systems

NPA - Non-Performing Assets

ROA- Return on Assets

ROE- Return on Equity

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CHAPTER ONE

INTRODUCTION

1.0 Back ground of the study

1.1 Historical Background

Risk management began to be studied after World War II. Several sources (Crockford, 1982; Harrington and Niehaus, 2003; Williams and Heins, 1995) date the origin of modern risk management to 1955-1964. Snider (1956) observed that there were no books on risk management at the time, and no universities offered courses in the subject. The first two academic books were published by Mehr and Hedges, (1963) and Williams and Hems, (1964). Their content covered pure risk management, which excluded corporate financial risk. In parallel, engineers developed technological risk management models. Operational risk partly covers technological losses; today, operational risk has to be managed by firms and is regulated for banks and insurance companies. Engineers also consider the political risk of projects.

Risk management has long been associated with the use of market insurance to protect individuals and companies from various losses associated with accidents (Harrington and Niehaus, 2003).

In 1982, Crockford wrote: "Operational convenience continues to dictate that pure and speculative risks should be handled by different functions within a company, even though theory may argue for them being managed as one. For practical purposes, therefore, the emphasis of risk management continues to be on pure risks." In this remark, speculative risks were more related to financial risks than to the current definition of speculative risks. New forms of pure risk management emerged during the mid-1950s as alternatives to market insurance when different types of insurance coverage became very costly and incomplete. Several business risks were costly or impossible to insure. During the 1960s, contingent planning activities were developed, and various risk prevention or self-protection activities and self- insurance instruments against some losses were put in place. Protection activities and coverage for work-related illnesses and accidents also arose at companies during this period.

Dixon G, (2001) contends that the use of derivatives as instruments to manage insurable and uninsurable risk began in the 1970s, and developed very quickly during the 1980s. It was also in the 1980s that companies began to consider financial management or portfolio management. Financial risk management has become complementary to pure risk management for many companies. Financial institutions, including banks and insurance companies, intensified their market risk and credit risk management activities during the 1980s

1.2 Theoretical background

The need for a total risk measure implies that risk measurement cannot be decentralized. For parametric measures of risk, such as standard deviation, this follows from the theory of portfolio selection (Markowitz 1952) and the well-known fact that the risk of a portfolio is not, in general, the sum of the component risks. More generally, imperfect correlation among portfolio components implies that simulations of portfolio risk must be driven by the portfolio return distribution, which will not be invariant to changes in portfolio composition. Finally, given costly regulatory capital requirements, choices among alternative assets require managers to consider risk/return or risk/cost trade-offs where risk is measured as the change in portfolio risk resulting from a given change in portfolio composition. The appropriate risk scaling measure depends on the type of change being made. For example, the pertinent choice criterion for pure hedging transactions might be to maximize the marginal risk reduction to transaction cost ratio over the available instruments while the choice among proprietary transactions would involve minimizing marginal risk per unit of excess return.

Bank regulators have a singular risk measurement goal. They want to know, to a high degree of precision, the maximum loss a bank is likely to experience over a given horizon. They then can set the bank's required capital (i.e. its economic net worth) to be greater than the estimated maximum loss and be almost sure that the bank will not fail over that horizon. In other words, regulators should focus on the extreme tail of the bank's return distribution and on the size of that tail in adverse circumstances. Bank managers have a more complex set of risk information needs. In addition to shared concerns over sustainable losses, they must consider risk/return trade-offs. That calls for a different risk measure than the "tail" statistic, a different horizon, and a focus on more usual market conditions (Reid, G. J, 2003)

1.3 Conceptual background

Saunders A, (1996) defined financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as 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.

It can also refer to the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms.

Santomero A, (1984) assert that the process of identification, analysis and either acceptance or mitigation of uncertainty in investment decision-making. Essentially, risk management occurs anytime an investor or fund manager analyzes and attempts to quantify the potential for losses in an investment and then takes the appropriate action (or inaction) given their investment objectives and risk tolerance. Inadequate risk management can result in severe consequences for companies as well as individuals

Risk management is the identification, assessment, and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives, whether positive or negative) followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities.

Risk management is simply a practice of systematically selecting cost-effective approaches for minimizing the effect of threat realization to the organization. All risks can never be fully avoided or mitigated simply because of financial and practical limitations. Therefore, all organizations have to accept some level of residual risks.(Salomon Brothers, 1993).

1.4 Contextual background

Housing Finance Bank was incorporated on the 'December 1967 as a financial institution that was dealing in mortgage loans and accepting deposits and became a fully fledged commercial Bank on 2nd January 2008. According to housing finance bank risk management manual 2009, the bank employs various risk management mechanisms which include.

Housing finance has experienced a decline in its financial performance for the last three years as evidenced from its financial statement for the years; 2008, 2009 and 2010. In 2008 it achieved 6.9 billion in 2009 it achieved 5 billion; it achieved 4.4 billion compared to its target of 7.7 billion in 2010.The bank's impairment losses on loans and advances are still high that is 1.5 billion in 2010 and yet in 2009 it had 281million (Elliot, 2010).

1.2 Statement of the problem

Despite having employed various risks management mechanism such as proper understanding of all risks, adequate risk monitoring, communicating of risks to all employees, staff training and adequate internal controls, housing finance bank has persistently experienced a decline in its financial performance as evidenced from housing finance bank financial statement for the year ended 31st December 2009. In 2008 it achieSved 6.9 billion, in 2009 5 billion and 4.4 billion in 2010. (Housing Finance Bank Annual Report, 2009-2010).

The bank's impairment losses on loans and advances are still high that is 1.5 billion in 2010 and yet in 2009 it had 281 million. (Housing Finance Bank annual report 2009-2010).This could be attributed to poor risk management policies. If this problem is not attended to and proper financial strategies like Risk management and its implications are not adhered to by the housing finance bank, attaining the required planned financial performance will never be achieved.

1.3 Purpose of the study

The purpose of the study was to establish the relationship between risk management and performance in Housing Finance Bank.

1.4 Objectives of the Study

i. To examine the various risk mechanisms employed by banks in the management of risks

ii. To examine the financial performance of the housing finance bank.

iii. To establish the relationship between risk management and financial performance in banks.

1.5 Research Questions

i. What are the various risk mechanisms employed by banks in the management of risks?

ii. What is the financial performance of the housing finance bank?

iii. What is the relationship between risk management and financial performance in banks?

1.6 Scope of the Study

1.6 Geographical scope

This study focused on Housing Finance Bank located at Investment House plot 4 Wampewo Avenue, Kololo Kampala Uganda

1.6.2 Subject scope

The study was confined to risk management and performance of commercial banks using housing finance bank as the case study.

1.6.3 Time scope

The study covered a period between 2001-2014 explaining the independent and dependent variables.

1.7 Significance of the Study

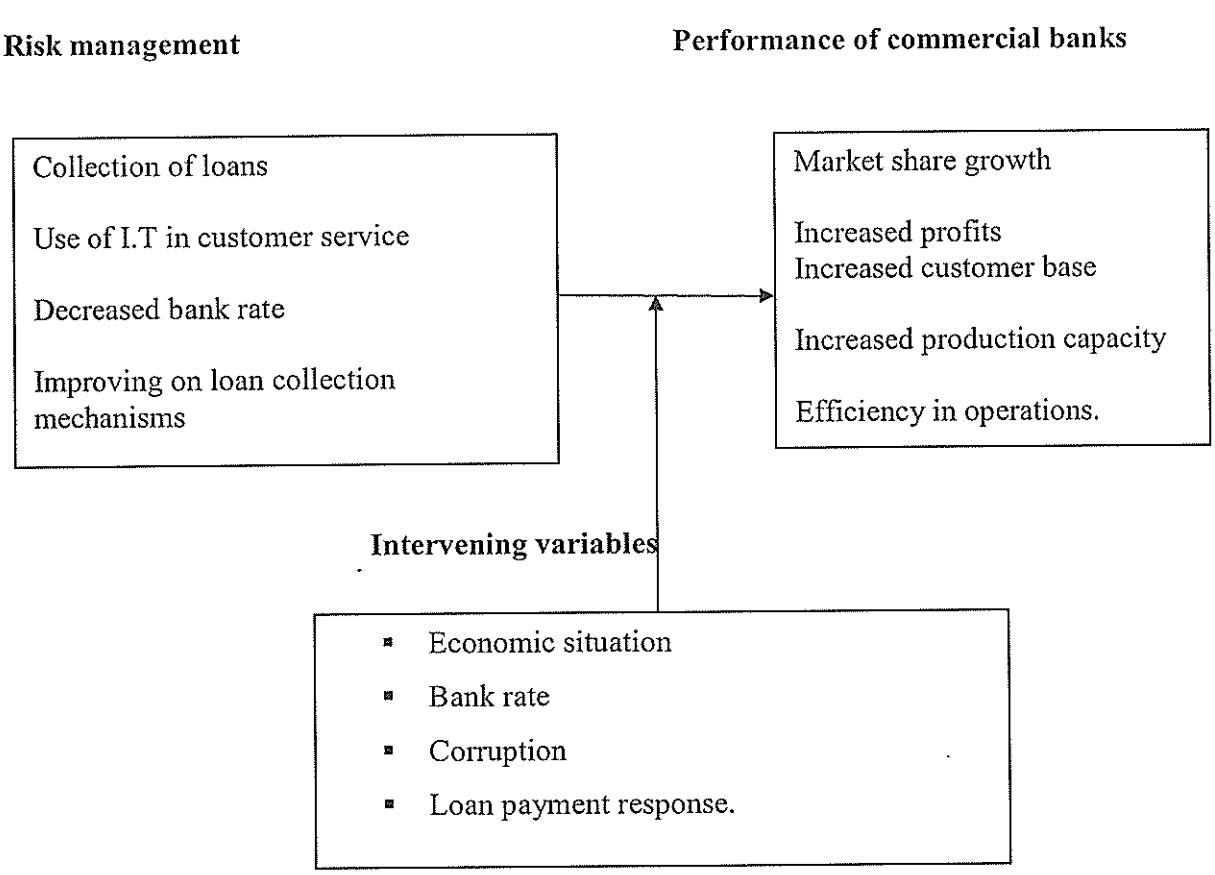
The research will help housing finance bank management in creating risk management strategies for attaining the required planned financial performance.

The research will help the public to know about the performance of housing finance bank. Through conducting a thorough investigation on the performance of housing finance bank, the performance levels will be established

The Research will add more information to the existing knowledge on commercial banks and their performance, which will be useful for academicians and researchers for other related studies.

1.8 Conceptual frame work

Figure 1: A conceptual framework relating risks management and performance of commercial banks



Source: (Tai 2004)

Figure 1: Relates to Conceptual frame work that is a diagrammatical representation of the variables; explaining the linkage between variables of study in respect to this study. The independent variable (risk management) affects the dependent variable (performance of the banking sector). These two variables are in turn being affected by the intervening variables for this case economics situation, bank rate and loan payment schedules that improve or retard the performance of the independent and dependent variables.

CHAPTER TWO

LITERATURE REVIEW

2.0 Definition of risk management

Risk Management is the analysis of risk, coupled with the implementation of quality risk controls. It involves risk identification, risk measurement, risk evaluation, risk reporting and risk treatment or control (Saunders, 1996)

2.1 Risk Management Process

The Process of Risk Management includes the following

2.1.1 Risk identification

This involves determining the events that could have an adverse effect on the Bank. The Bank does this through a risk analysis procedure with the help of key risk indicators, internal assessments and the internal audit function (Chein T., Danw S.Z, 2004)

2.1.2 Risk Measurement

This involves analyzing each risks, assessing its size, duration and probability of adverse occurrence. Quantitative and qualitative tools are used. (Smith et al 1990).

2.1.3 Risk Evaluation

When the risk analysis process has been completed, estimated risks are compared against risk criteria as established by Housing Finance Bank. This helps to make decisions about the significance of risks to the organization and whether each specific risk should be accepted or treated (Santomero, 1984).

2.1.4 Risk Reporting

Risk and Compliance department will avail Risk information from the risk management process to both internal and external stakeholders. Internal stakeholders will be the Board of Directors, Business Units, and individuals. External stakeholders will include among others Bank of Uganda and Government of Uganda (Saunders, 1996).

2.1.5 Risk treatment or control

This involves three ways of minimizing the adverse consequences of risk. These include: risk avoidance or placing limits on certain activities/risks, Risk transfer through outsourcing, Risk financing through insurance (Santomero, 1984).

2.1.6 Risk monitoring

According to Marshall, C. and M. Siegel, (1996) risk monitoring is the continuous evaluation of internal controls and procedures to close loopholes. This is accomplished in the following ways: The Internal Audit department reviews and advises on how effective, efficient and economic the internal controls are. The Bank's external auditors carry out regular reviews of internal controls especially in the high and medium risk areas. The Bank has developed a Management Information System (MIS) to identify' adverse changes in risk profiles. The Risk department further monitors risk using the risk register, operational risk questionnaire, and suspicious transactions schedule among others.

2.2 Mechanisms of risk management

Santomero, (1984), the management of a banking firm relies on a sequence of parameters to implement risk management system. These can be seen as containing the following four parts.

2.2.1 Standards and reports

According to Marshall et al (1996), the first of these management techniques involves two different conceptual activities that is standard setting and financial reporting. They are listed together because they are the sine qua non of any risk system under writing standards, risk categorizations and standards of review are all traditional tools of risk management and control.

2.2.2 Position limits and rules

In this technique of internal control the domain of risk taking is restricted to only those assets or counter parties that pass some pre-specified quality standard while such limits are costly to establish and administer their imposition restricts the risk that can be assumed by any one individual and their fore by the organization as a whole (Smith et al ,1990).

2.2.3 Investment guidelines and strategies.

Here strategies are outlined in terms of concentrations and commitments to particular areas of a market, the extent of desired asset. Liability exposure and the need to hedge against systematic risk of a particular type. Incentive schemes: to the extent that management can enter incentive compatible contracts with line mangers and make compensation related to the risks borne by these individuals then the need for elaborate and costly control is lessened (Risk management manual 2009).

2.3 Why banks manage risk

According to standard economic theory, managers of value maximizing firms/banks ought to maximize expected profits without regard to the availability around its expected value. However, there is now growing literature on reasons for active risk management including the work of (Stultz ,1984) and(Wolford, 1990).

In the recent review of risk management reported in Santomero ,(1995) lists four distinct rationales offered for active risk management. These include; Managerial self interest, the non-linearity of the tax structure, the cost of financial distress and the existence of capital market in perfection.

According to Arzu Tektas and Gokhan Gunay, (2005) argued that an efficient asset-liability management requires maximizing banks profits as well as controlling and lowering various risks. According to John R Presley, (1992) concluded from his study that there is need for greater risk management in relation to more effective portfolio management and this requires the greater emphasis upon the nature of risk management and return in bank asset structure and greater diversification of assets in order to speared and reduce the banks risks.

2.2 Performance

Performance is the accomplishment of a given task measured against preset standards of accuracy, completeness, cost and speed (Elizabeth D; Greg Elliot,2004).

Financial performance can be defined as a measure for 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 (Investopidia).

2.5 General performance of commercial banks in Uganda

There are several indicators of performance of commercial banks which include capital adequacy, asset quality earnings and liquidity (BOU, 2002).

Amazingly, even after intervention by Bank of Uganda through the closure of at least three commercial banks in 1999, a number of commercial banks in Uganda have continued to register poor financial performance.

For instance, National Bank of commerce in 2001. Citi Bank's profits fell from 4.1 billion in 2001 to 2.3 billion in 20029 (Aggrey, 2003). Similarly, a balance sheet position of Stanbic Bank for the year 2001 declined by 14.24% compared with the growth of 19.19% in 2000. Loans and advances which comprised 32.95% of total asset declined by 24.42% and the efficiency ratio declined from 31.65% to 35.07% (Stanbic Bank Uganda, 2001)

2.6 Measures performance of financial

These are an alternative term as financial soundness is coined into what is referred to CAMEL. This acronym CAMEL refers to the 5 components of the banks conditions that are assessed: capital adequacy, assets quality, management, earnings and liquidity (Chein et al, 2004)

Capital adequacy

2.6.1 Capital adequacy

Capital adequacy in commercial bank is measured in relation to the relative risk weights assigned to the different category of assets held both on and off the balance sheet items (bank of Uganda 2003). According to Basel Accord, the minimum bank capital is 8% of risk – weighted assets for internationally active banks (Arzu et al, 2005).

The Basel Accord divides Bank capital into two categories that is Tier i core capital, which consists of share holder equity and retained earnings and Tier ii supplemental capital which consists of internationally recognized non equity items such as preferred stock and subordinated bonds (Arzu et al, 2005).

Capital adequacy helps the bank to focus on its total position of capital and protect depositors from potential shocks of losses that a bank incurs (Nimalathasan, 2008).

2.6.2 Asset quality

Asset quality involves performing and non performing assets of commercial banks. Asset quality helps commercial banks to know the concentration of loans and advances in total assets. The high concentration of loans and advances indicates vulnerability of assets to credit risks especially since the portion of non performance assets is significant (Richard et al, 2003).

2.6.3 Earnings

The continued viability of a bank depends on its ability to earn an adequate return on its assets and capital. Good earnings performance enables a bank to fund its expansion, remains competitive in the market and increase its capital (BOU, 2003).

Earning is measured by return on equity and return on asset ratios.

Strong earnings and profitability profiles of a bank reflects its ability to support present and future operation. Noise specifically this determines the capacity to absorb losses by boiling adequate dividends to its share holders.

2.6.4 Liquidity

Initially solvent financial institutions may be driven towards closure by poor management of short term liquidity (Ruth, 2001).When determining how much to hold in liquidity assets the bank should look to the minimum requirements set by the Central Bank as stipulated in the financial institutions regulations in force.

Liquidity helps the bank in a way that it meets the daily demand of customers which increases customer's confidence in the bank. Illiquidity can lead to a run on the bank if customers can not access their funds as expected. It also costs the bank money by having to obtain Inter - bank borrowing at a higher rate (Elizabeth D., Greg Elliot, 2004)

2.7 Relationship between risk management and financial performance of commercial banks.

When banks manage well their risks they get advantage to increase their performance return. By implementing risk management mechanisms leading to better bank performance. Better bank performance increases their reputation and image from public or market point of view. The bank also gets more opportunities to increase the productive assets, leading to higher bank profitability (Cebenoyan and Strahan, 2004).

(Chein et al 2004) defined as the uncertainty of the objectives; banks need to take risk in order to maximize profits in the present banking investment. The levels of risk have to compliment the expected returns, and certain financial indicators are needed as a guide to achieving the optimal mix

The solvency of financial institutions typically is at risk when their assets become impaired, so it is important to monitor indicators of the quality of their assets in terms of over exposure to specific risks trend in non-performing loans, and the health and profitability of bank borrowers especially the corporate sector. Credit risk is inherent in lending, which is the major banking business. It arises when a borrower defaults on the loan repayment agreement. A financial institution whose borrower default on their repayments may face cash flow problems. Ultimately this negatively impacts on the profitability and capital through extra specific provisions for bad debts (Bank of Uganda, 2002).

Santomero, (1984) contend that credit risk arises from non-performance by borrowers. It may arise from either an inability or unwillingness to perform in the pre-committed contracted manner. This can negatively affect the financial performance of leader holding the loan contract as well as the other lenders to the creditors. Therefore financial conditions of the borrowers as well as the current value of any underlying collateral are of considerable interest to the bank

Liquidity risk can best be described as the risk of funding crisis. Such a situation would inevitably be associated with an unexpected event, such as a large charge off, loss of confidence, or crisis of national proportion such as a currency crisis. In any case, risk management here centers on liquidity facilities and portfolio structure. Recognizing liquidity risk leads the bank to

recognize liquidity it self as an asset and portfolio design in the face of illiquidity concerns as a challenge (Santomero, 1997).

Although some researchers say that the higher the risk the higher the expected returns. They have failed to talk about the instances where high risk may result into a heavy loss. (Hempel et al, 1986). These therefore, bring a need to research on how much risk commercial banks should undertake to increase and maintain their required level of financial performance.
According to Cebenoyan and Straham (2004) there is evidence that banks which have advanced in risk management have greater credit availability rather than reduced risk in the banking system which leads to a need to research on how risks can be reduced in banking system.

2.9 The Study gap.

This is the analysis concerning the situation in the case study that creates a controversial linkage in variables and caused the researcher to conduct a research on the variable risk management and performance of the banking sector. Research on these variables has been conducted before by many individuals but the concern has not been on financing for women so in effect the findings are to provide parameters for operation of women.

Proper understanding of all risks current and potential, adequate risk monitoring and management information system. It also communicates risks to all employees on a regular basis and trains staff on risk management. It has adequate internal controls.

Risk is inherent in the Banks activities but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the bank's continuing profitability and each individual in the Bank with in the Bank's accountable for the risk exposures relating to his or her responsibility (HFB annual report, 2009...). The essence of the study is to provide mechanism to enhance profitability

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter describes the process and the procedure involved in conducting the research study. It explains the research design, study area and population, sampling selection techniques and sample size data sources, data collection instruments, data processing and analysis, ethical consideration and finally the limitations of the study.

3.1 Research Design

The researcher used both qualitative and quantitative research designs to conduct the whole study. Qualitative research design seeks to locate the study in scholarly debates on micro credit financing and the performance of women owned business. Quantitative research design was used to compare organizational performance and micro credit as well as other sources of credit to businesses and because the findings of the study are both numerical and non-numerical (respondents options and views about the study variables) and have to be quantified for easy interpretation and description accompanied.

3.3 Study area and population

3.3.1 Study area

The study was carried out at housing bank Kololo branch. The researcher intends to choose this case study because it holds substantial data that can easily enable the researcher to collect enough data on the findings.

3.3.2 Study population

The target population provides primary data about study variables. For the case of this study it will include the bank staff from the accounting, finance, procurement, customer care and the loaning section.

3.3 Sample size

The researcher used a sample size commensurate to the study population upon verification and approval of the study population. This sample size is representative of the whole population and manageable to administer the research instruments. It is on these selected respondents that the

data collection instruments collected and obtained the data. The researcher used Slovene's formular to determine the sample size as showed in appendix ii

Therefore a sample of 80 respondents will be chosen for data collection

3.4 Sampling procedure

A representative sample of the respondents was selected from the total population to participate in the study. The researcher will use simple random and purposive sampling techniques to choose the respondents to participate in the study. With simple random it means that every member in the sample population has an equal chance of being included in the sample size, this will reduce on the researcher's bias in obtaining the sample respondents. Also with purposive sampling it means that information will only be obtained from the key informants who have ideas about the subject matter hence first hand information was obtained.

3.5 Data collection methods/ instruments

The researcher will use a combination of methods to obtain primary data from the field/ area of study about the research problem including; Questionnaires, Interviews, Observation and focus group discussions. These methods can be explained as below

3.5.1 Questionnaire method

The researcher designed a set of questions and made a questionnaire. This was comprehensive enough to cover the extent of the problem and all aspects of the study variable basing on the objectives of the study chapter one (1.4). The questions contained in the questionnaire were both open and close ended that enabled the respondents express their views and opinions. Some of the questionnaires were delivered to the respondents by the researcher and others were personally administered by the researcher, thus self- administered and researcher administered questionnaire respectively were used to obtain primary data.

3.5.2 Interview method

This was done through oral conversations in order to get information. To increase the response rate the researcher used interview method to obtain primary data. The interviews were informal or formal/ semi structured or structured involving a pre-designed interview guide. Here the researcher visited the selected women owned businesses during working hours and conduct

interviews to seek respondent's opinions about the effect of micro credit funds on their performance.

3.6 Data sources

Both primary and secondary data was used in this research. Primary data was collected directly from the employees (respondents) Housing finance Bank by the use of questionnaires which included open-ended questions in order to obtain detailed information from the respondents. Also, secondary data were obtained by going through submitted performance reports and documents possessed by the finance, accounting and other department's organization on the area of study

3.7 Measuring the validity and reliability of the study

To establish the validity of the instruments, the researcher administered questionnaires to the various officials; computation was done by the use of computer program special package for social science. This so for the case of questionnaire research instrument. The data was analyzed and fed accordingly.

After data collection the researcher conducted a check of the information by subjecting secondary questionnaire guides in form of pre- examination so as to identify the correlation in the information given.

Data validity was checked by the researcher comparing the written information in the reports concerning risk management and its correlation with performance. This is together with choosing a clear sample population that gives a representation of the entire population.

3.8 Research procedure

The researcher chose a topic containing appropriate variables upon selection of the supervisor who will approve it. After approval the researcher acquired a letter of introduction from the department and present it to the officials in the case study area, which upon approval shall grant the researcher approval to begin conducting and collecting data from the field.

3.9 Data analysis

Data collected from the field was carefully edited, sorted and coded to eliminate the inconsistencies and errors that could be made during data collection. This involved the use of excel computer package using statistical techniques such as charts, tables, and graphs.

3.10 Ethical considerations

The researcher considered each respondents view as confidential and at no time will the researcher reveal any information to the effect about a respondent.

The researcher respected the respondent's rights including the right not to participate in giving data. Here the respondents who choose not to participate were left alone. This can although contravene on the findings but it is within the provisions of research to do so.

The choice of the respondents was be dependent on the experience and seniority in line with the subject matter- risk management and organizational performance.

All potential respondents were given equal opportunity to participate in the research, it was done so without segregation on grounds of race, religion etc.

3.11 Limitations of the study

The researcher may be limited by the following.

The researcher may was not able to get enough data because of the busy schedules of some officials, this may hamper data collection.

The time may not be favorable due to busy academic schedules by the researcher

The researcher may be faced with costly requirements such as transport and meals.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter deals with analysis interpretation and presentation of the research findings. The analysis and research findings were interpreted and analyzed basing on the research questions. The study was set to investigate on the risk management and performance of commercial banks at Housing finance bank. The findings were obtained through the use of a questionnaire, interviews, and documents from the respondents and the questionnaire was presented to 80 respondents who answered them successfully.

4.1 Respondent's Particular

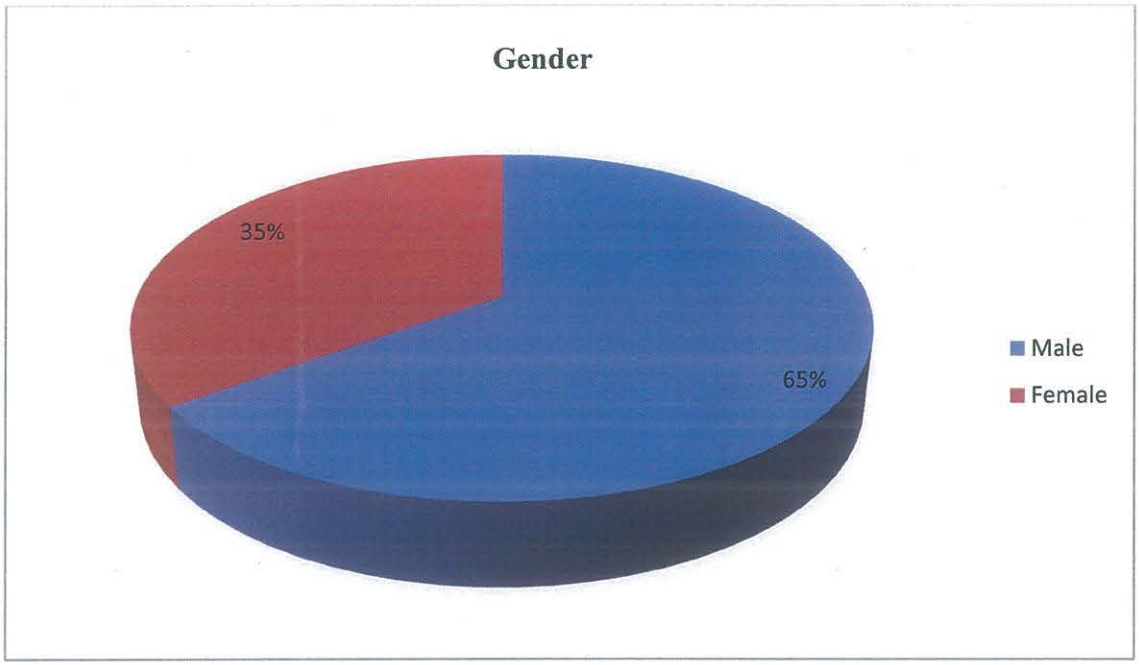
4.1.1 Gender of respondents

Table 1: Showing the gender characteristics of respondents

Gender	Frequency	Percentage
Male	52	65
Female	28	35
Total	**80**	**100**

Source: Primary Data

Figure 1: Showing the gender characteristics of respondents



Source: Primary data

Results above portray the gender characteristics of respondents. The results were that 65% of the respondents were male while the female counterparts were 35%. The findings indicate that the study can't be doubted on gender grounds. It further indicates that both females and males are involved in banking sector.

4.1.2 Age Categorization

Table 2: Showing age distribution of respondents

Age	Frequency	Percentage
18 – 28	12	15
29 – 38	35	43.75
39 – 49	18	22.25
50+	15	18.75
Total	**80**	**100**

Source: Primary Data, 2014

Results in table 2 is about the age of respondents, the results were that majority of the respondents 35(43.5) were in the age bracket of 29-38, followed by 39 to 49 with 22.5%, then 50+ with 18.75% and finally 18-28 with 15%. This implies that responses were from mature people. it can be construed that the majority of the respondents are mature people and therefore they have an active memory hence the information obtained from them can be trusted and looked at as true and good representation of the information the researcher was looking for.

4.1.3 Education level of respondents

Table 3: Showing the education level of respondents

Education Level	Frequency (f)	Percentage (%)
Certificate	10	12.5
Diploma	14	17.5
Degree	40	50
Others	16	20
Total	**80**	**100**

Source: Primary, Data, 2014

Results in table 3 indicate that majority responses were 40(50%) who were degree holders followed by 16(20%) for postgraduate then diploma had 17.5% and finally certificate was found to have 12.5%.This implies that the staff of housing finance bank are well educated and therefore the information obtained from them can be relied upon for the purpose of these study

4.2 Various risk mechanisms employed by banks in the management of risks

The first objectives of the study were to examine the various risk mechanisms employed by the banks in the management of risks in Banks. The responses to these objective were collected and analyzed through the presentation below.

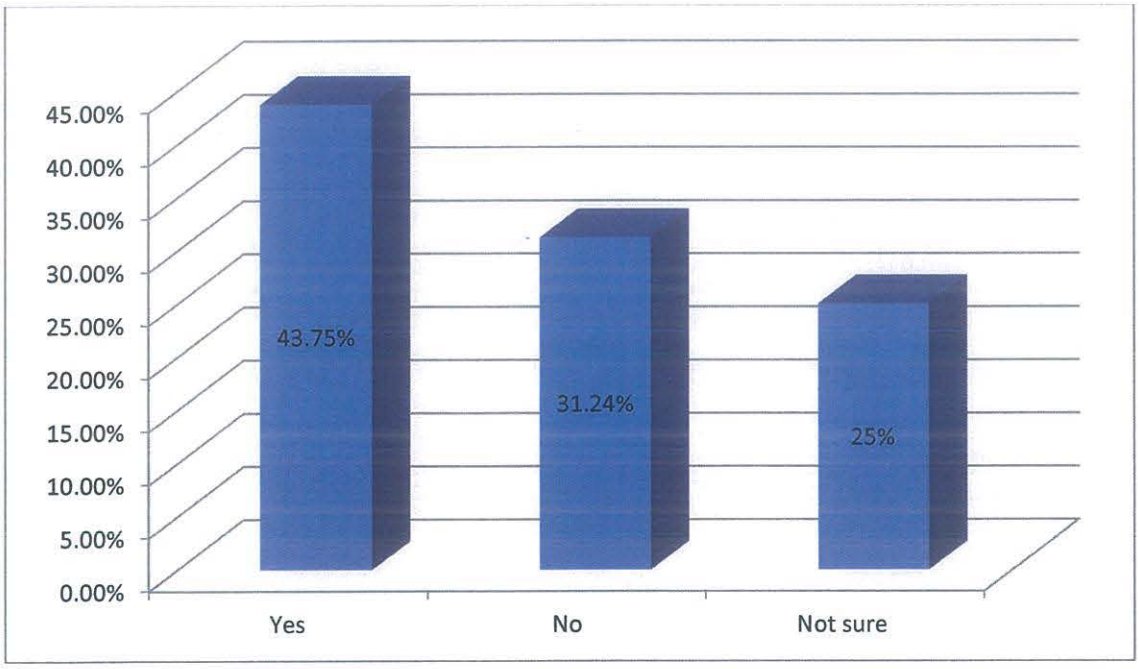
4.1.4 Presence of risk management mechanisms at Housing finance bank

Table 4 Showing Responses on the Presence of risk management mechanisms at Housing finance bank

Responses	Frequency (f)	Percentage (%)
Yes	35	43.75
No	25	31.25
Not sure	20	25
Total	**80**	**100**

Source: Primary Data, 2014

Figure 2: Showing Responses on the Presence of risk management mechanisms at Housing finance bank



Source: Primary Data

The results in table 4 show that 43.75 percent of the respondents agreed that there are risk mechanisms at housing finance bank, 31.25% disagreed and 25% were not sure. This indicates that whereas risk mechanism prevail at Housing finance it is possible that they are not so effective given a higher percentage of disagreement and not sure combined.

4.2.2 Types of risk faced in Housing finance bank

Table 5: Showing types of risk faced in Housing finance bank

Response	Frequency	Percentage
Market risks	12	15
Operational risks	18	22.5
Credit risk	20	25
Liquidity risk	13	16.25
Reputation risk	17	21.25
Total	**80**	**100.0**

Source: Primary data, 2014

Results in table 5 present the risks faced by housing finance bank. The researcher found that housing finance bank mostly suffer from the credit risk with 25% agreement, operational risks with 22.5%, reputational risks were next with 21.25%, liquidity was next with 16.25% and finally market risks with 15%. The responses imply that indeed risks prevail at housing finance bank. The fore effective management of risks has become increasingly important and respondents brutally aware of erosion of trusts and confidence in the industry, besides the above types of risks manual gives other risks like, strategic risk, compliance risk, tax risk and treasury risk.

4.2.3 Mechanisms employed to combat risks at Housing finance bank

Table 6: Showing mechanisms employed to combat risks at Housing finance bank

Response	Frequency	Percentage
The bank regularly confirms a guarantor's intention to guarantee their financing	12	15
There are credit limits for individual counterparty	5	6.25
The bank regularly conducts simulation analysis and measure benchmark (interest) rate risk sensitivity	13	16.25
The bank has a quantitative support system for assessing customers' credit standing	10	12.5
A computerized support system for estimating the variability of earnings and risk management is in place	20	25
The bank regularly assessed the positions of profit and loss	13	16.25
The bank has a reserve that can be used to increase the profit share (rate and return) of depositors and investment accountholders in low performing period	7	8.75
Total	**80**	**100**

Source: Primary data, 2014

Results in table 6 indicate that majority of the responses argued that A computerized support system for estimating the variability of earnings and risk management is in place 25%, The bank regularly conducts simulation analysis and measure benchmark (interest) rate risk sensitivity had

16.25%, The bank regularly assessed the positions of profit and loss had also 16.25, The bank regularly confirms a guarantor's intention to guarantee their financing was with 15%, the bank has a quantitative support system for assessing customers' credit standing had 12.5%, the bank has a reserve that can be used to increase the profit share (rate and return) of depositors and investment accountholders in low performing period had 8.75 and There are credit limits for individual with 6.25%. The results imply that there are mechanisms for risk management, the question of the day would be how effective is the mechanisms hence the need for recommendations.

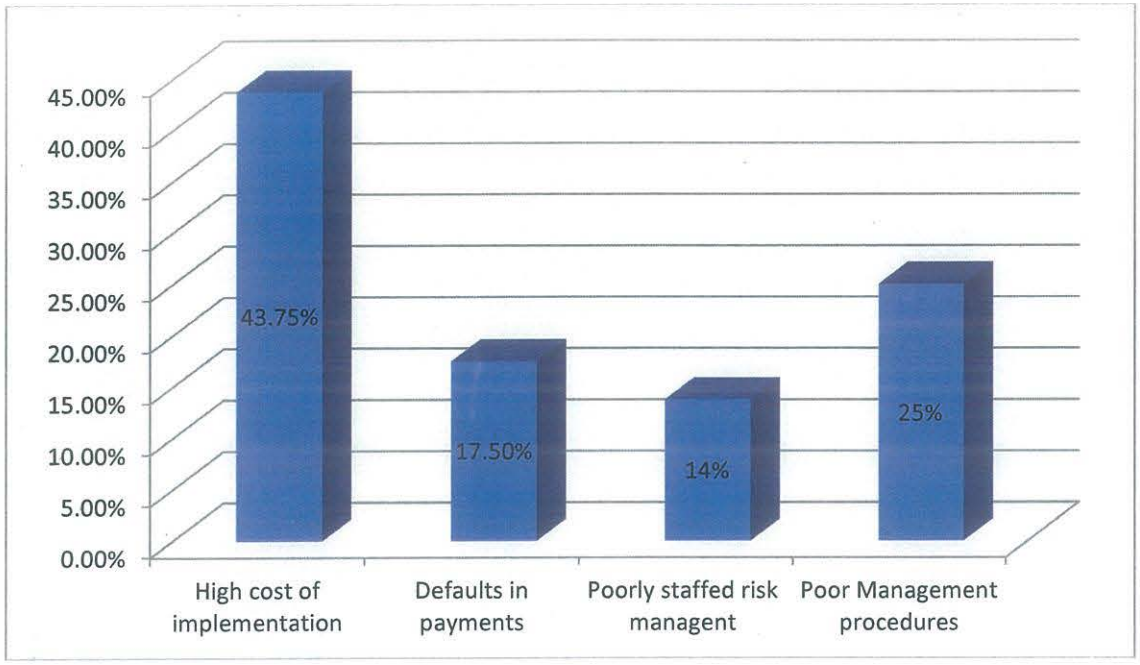
4.2.4: Loopholes associated with risk management at Housing finance bank

Table 7: Loopholes associated with risk management at Housing finance bank

Responses	FREEQUENCY	PERCENTAGE
High cost of implementation	35	43.75
Defaults in payment	14	17.5
Poorly staffed risk management	11	13.75
Poor management procedures	20	25
Total	**80**	**100.0**

Source: Primary data, 2014

Figure 3: Showing loopholes associated with risk management at Housing finance bank



Source: Primary data

Results in table 7 indicate that there are several loopholes associated with risk management at housing finance bank. The majority responses were that 43.75% of the respondents agreed that high cost of implementation, poor management procedures 25%, defaults in payments 17.5 and poorly staffed risk management. The presentation indicator despite risk management, loopholes in management exist, it therefore means that there is need for focused concentration on the reducing loopholes to the risks in managing commercial aspects of the bank.

4.3 Financial performance of housing finance bank

The second objective of the study was to examine the financial performance of housing finance bank. The results were gathered from the respondents based on the questionnaire information sgenerated from 80 respondents.

4.3.1 Performance of housing finance bank

Table 8: Showing the performance of housing finance bank

Responses	FREEQUENCY	PERCENTAGE
Very good	35	43.75
Good	14	17.5
Poor	11	13.75
Very poor	20	25
Total	**80**	**100.0**

Source: Primary Data, 2014

Results in table 8 present the financial performance of housing finance bank. The results indicate that majority ranked the performance of housing finance bank as being very good (43.75), good was recorded with 17.5%, very poor had 25%, and poor had 13.75% of responses. The response imply that despite the fact that performance of housing finance carries high response on good, the performance of the bank is not outstanding, therefore the need for improving financial performance is paramount to enhancing the operation of financial institutions.

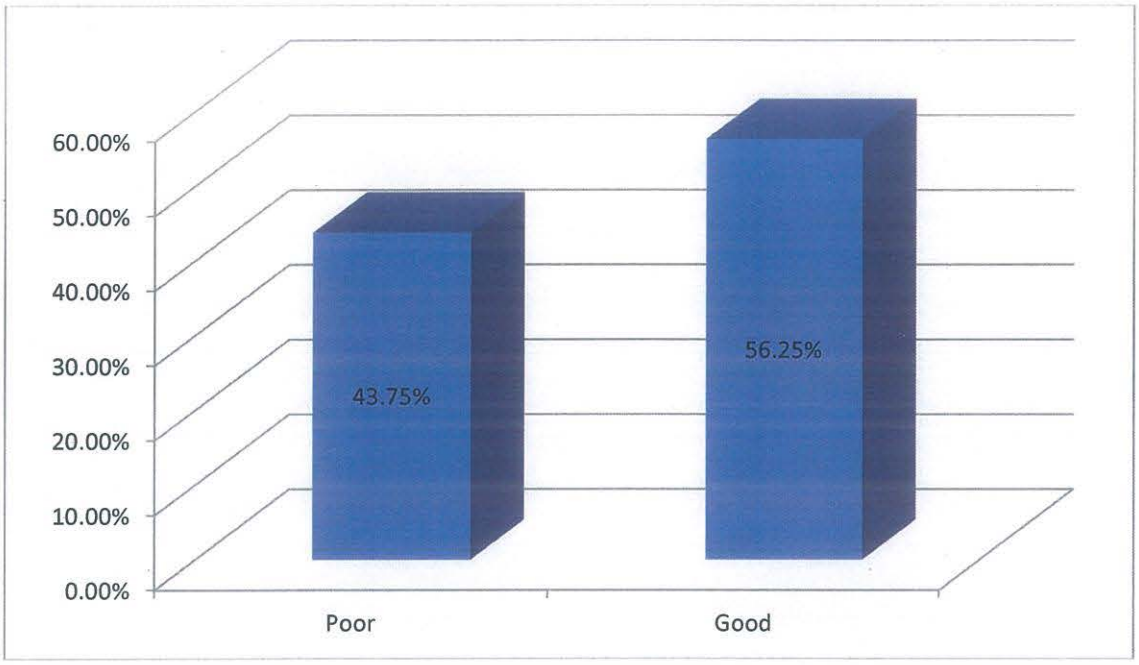
4.3.2 General performance of housing finance bank

Table 9: Showing performance of housing finance bank in terms of profits

Responses	Frequency (f)	Percentage (%)
Poor	35	43.75
Good	45	56.25
Total	**80**	**100**

Source: Primary Data, 2014

Figure 4: Showing general performance of housing finance bank



Source: Primary data

Results in table 9 show the performance of housing finance bank in terms of profits. The results were that majority responses were reported for 56.25% whereas poor had 43.75%. The results imply that despite performance (good) being high there is need for the bank to setup policies for improving profits.

Table 10: Showing performance of housing finance bank in terms of Market share

Responses	Frequency (f)	Percentage (%)
Poor	38	47.5
Good	42	52.5
Total	**80**	**100**

Source: Primary Data, 2014

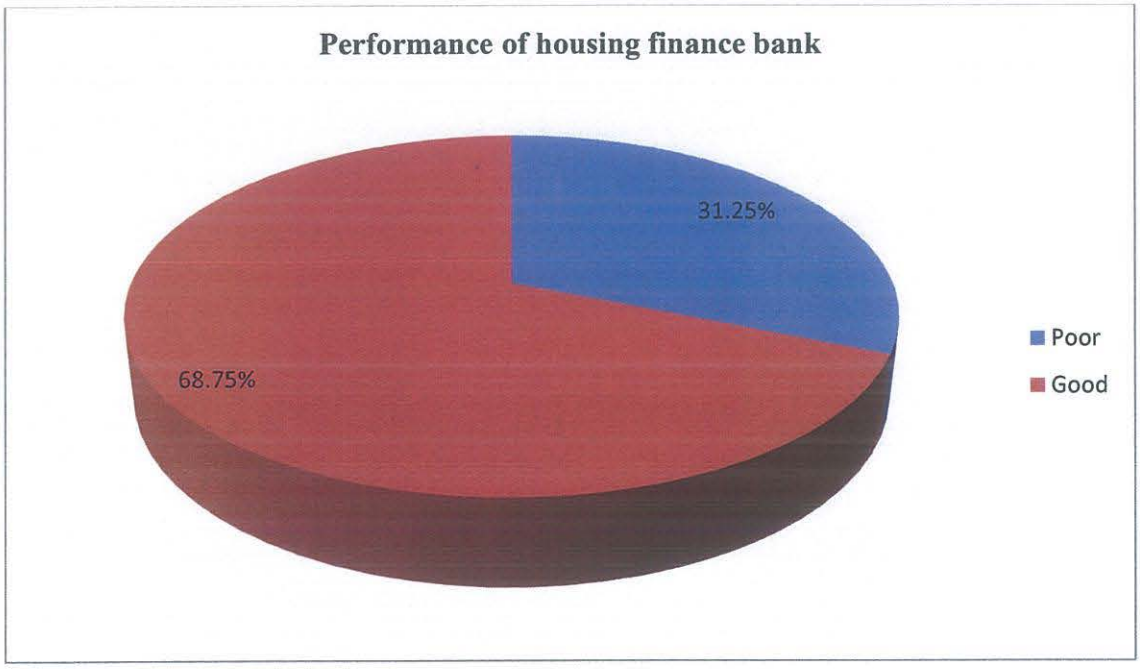
Responses in table 10 present that majority of the respondents agreed that the performance of housing finance in terms of market share is good, with 52.5. The other responses were those 47.5% .This indicate that market share growth is not so utmost hence the need for improved market share.

Table 11: Showing performance of housing finance bank in terms of Sales performance

Responses	Frequency (f)	Percentage (%)
Poor	25	31.25
Good	55	68.75
Total	**80**	**100**

Source: Primary Data, 2014

Figure 5: Showing performance of housing finance bank in terms of Sales performance



Source: Primary data

Responses in table 11 indicate that housing finance bank performance in terms of Sales performance was coded good with 68.75% of the total respondents and 31.25% were poor. This implies that sales performance of housing finance is fair given the high responses on the good hence need to improve performance.

Table 12: Showing performance of housing finance bank in terms of Market share

Responses	**Frequency (f)**	**Percentage (%)**
Poor	41	51.25
good	39	48.75
Total	**80**	**100**

Source: Primary Data, 2014

The performance of housing finance bank in terms of Market share had 51.25 argued that the market share growth is poor, whereas good had 39(48.75%). The responses on market share denote that housing finance market share is not good hence the need for intensified market search to improve market share.

Table 13: Showing what should be done to improve the performance of housing finance bank

Responses	Frequency (f)	Percentage (%)
There is need to put in place an internal control system capable of swiftly dealing with newly recognized risks arising from changes in environment	24	30
The need for separation of duties between those who generate risks and those who manage and control risks	16	20
The need for internal auditor is responsible to review and verify the risk management systems , guidelines and risk reporting	10	12.5
The need for banks to has backups of software and data details	18	22.5
More technically advanced risk management approaches	12	15
Total	**80**	**100**

Source: Primary Data, 2014

Responses on what should be done to improve the performance of housing finance bank. The responses were that "There is need to put in place an internal control system capable of swiftly dealing with newly recognized risks arising from changes in environment had 30% responses followed by 22.5% on the need for bank has backups of software and data files, The need for separation of duties between those who generate risks and those who manage and control risks had 20%, More technically advanced risk measurement approaches 15% and The need for internal auditor is responsible to review and verify the risk management systems, guidelines and risk reports 12.5%. The findings indicate the need to adopt the measures suggested by the researcher since they were seen visible of affecting performance.

4.4 Relationship between risk management and financial performance of housing finance bank

The third objective of the study was to assess the risk management and its influence on housing finance bank. The responses on these were gathered and presented in the tables including their analysis as showed below.

4.4.1 Influence of risk management on financial performance

Table 14: Showing Influence of risk management on financial performance

Responses	Frequency (f)	Percentage (%)
Yes	47	58.75
No	13	16.25
Not sure	20	25
Total	**80**	**100**

Source: Primary Data, 2014

Results in table 14 indicate that there is influence of risk management on financial performance as given by 47(58.75%) respondents who agreed, 16.25% disagreed and not sure had 25% respondents. The responses were therefore an indication that effective risk management

contributes to performance of housing finance bank given the details unveiled by the respondents.

Table 15: Showing the responses on the influences of risk management on performance of housing finance bank

Responses	Frequency (f)	Percentage (%)
Improved performance	12	15
Increased profitability	13	16.25
Increased market share	11	13.75
Improved information tracking	21	26.25
Increased Liquidity	17	21.25
Increased organizational efficiency	6	7.5
Total	**80**	**100**

Source: Primary Data, 2014

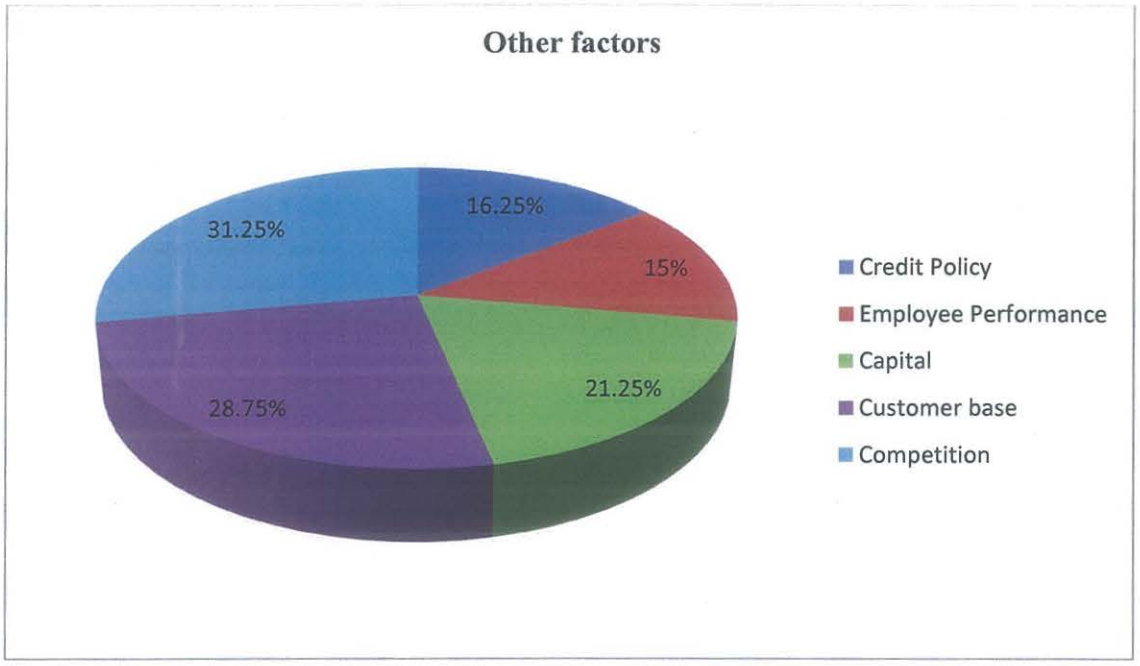
On the influences of risk management on performance of housing finance bank. Majority of the respondents were that Improved information tracking enhances performance was having 26.25% of the responses who agreed. Increased Liquidity had 17 (21.25%), Increased profitability 13 16.25%, Improved performance had 15%, Increased market share 13.75% and Increased organizational efficiency had 75%. In linking the risk management practices and financial performance, the mean scores of each risk management practices. Risk management practices are explained by risk management environment, policies and procedures, risk measurement practices, risk mitigation practices, risk monitoring practices and internal control practices. The prevalence of the environments therefore portray an array of information through which risk management is important, comprehending this is important.

Table 16: Showing the responses on the other factors which affect performance of housing finance bank

Responses	**Frequency (f)**	**Percentage (%)**
Credit policy	13	16.25
Employee performance	12	15
Capital	17	21.25
Customer base	23	28.75
Competition	25	31.25
Total	**80**	**100**

Source: Primary Data, 2014

Figure 6: Showing the responses on the other factors which affect performance of housing finance bank



Source: Primary data

Results in table 16 portray data concerning the other factors which affect performance of housing finance bank. The responses were that credit policy as a factor affecting performance of organizations had 16.25%, employee performance was seen to have 15%, capital had 21.25, customer base had 28.75 and competition had 31.25 Majority. The responses indicate that whereas the risk management mechanisms are fundamental to organizational performance, the management of housing finance bank need to comprehensively adopt means of organizational operation.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary, conclusions and recommendations made based on the study findings. They were made basing on the research questions. It also gives areas of further study.

5.1 Summary of the findings

The results in table 4 show that 43.75 percent of the respondents agreed that there are risk mechanisms at housing finance bank, 31.25% disagreed and 25% were not sure.

The researcher found that housing finance bank mostly suffer from the credit risk with 25% agreement, operational risks with 22.5%, reputational risks were next with 21.25%, liquidity was next with 16.25% and finally market risks with 15%.

Mechanisms employed to combat risks at Housing finance bank included a computerized support system for estimating the variability of earnings and risk management is in place 25%, The bank regularly conducts simulation analysis and measure benchmark (interest) rate risk sensitivity had 16.25%, The bank regularly assessed the positions of profit and loss had also 16.25, The bank regularly confirms a guarantor's intention to guarantee their financing was with 15%, the bank has a quantitative support system for assessing customers' credit standing had 12.5%, the bank has a reserve that can be used to increase the profit share (rate and return) of depositors and investment accountholders in low performing period had 8.75 and There are credit limits for individual with 6.25%.

There are several loopholes associated with risk management at housing finance bank. The majority responses were that 43.75% of the respondents agreed that high cost of implementation, poor management procedures 25%, defaults in payments 17.5 and poorly staffed risk management.

The results indicate that majority ranked the performance of housing finance bank as being very good (43.75), good was recorded with 17.5%, very poor had 25%, and poor had 13.75% of responses.

Responses on what should be done to improve the performance of housing finance bank. The responses were that "There is need to put in place an internal control system capable of swiftly dealing with newly recognized risks arising from changes in environment had 30% responses followed by 22.5% on the need for bank has backups of software and data files, The need for separation of duties between those who generate risks and those who manage and control risks had 20%, More technically advanced risk measurement approaches 15% and The need for internal auditor is responsible to review and verify the risk management systems, guidelines and risk reports 12.5%.

Results in table 14 indicate that there is influence of risk management on financial performance as given by 47(58.75%) respondents who agreed, 16.25% disagreed and not sure had 25% respondents.

In linking the risk management practices and financial performance, the mean scores of each risk management practices. Majority of the respondents were that Improved information tracking enhances performance was having 26.25% of the responses who agreed. Increased Liquidity had 17 (21.25%), Increased profitability 13 16.25%, Improved performance had 15%, Increased market share 13.75% and Increased organizational efficiency had 75%.

Other factors which affect performance of housing finance bank. The responses were that credit policy as a factor affecting performance of organizations, employee performance, capital, customer base and competition.

5.2 Conclusion

This study was set to investigate the risk management and their impact on commercial banks with special attention to housing finance bank Kololo branch. It was conducted under the guidance of three research objectives that included establishing the various risk mechanisms employed by banks in the management of risks, examining the financial performance of the housing finance bank and establishing the relationship between risk management and financial

performance in banks. The results were that there are various risk mechanisms employed by housing finance bank in combating commercial risks. These included

The bank regularly conducts simulation analysis and measure benchmark (interest) rate risk sensitivity, regularly assessing the positions of profit and loss, the bank regularly confirms a guarantor's intention to guarantee their financing and the bank has a quantitative support system for assessing customers, credit standing among others. Loopholes associated with risk management at housing finance bank included the cost of implementation, poor management procedures, defaults in payments poorly staffed risk management.
The performance of housing finance bank was found to be fair, there is need to put in place an internal control system capable of swiftly dealing with newly recognized risks arising from changes in environment, Backups of software and data files, The need for separation of duties between those who generate risks and those who manage and control risks, More technically advanced risk measurement approaches and The need for internal auditor is responsible to review and verify the risk management systems, guidelines and risk reports

In linking the risk management practices and financial performance, the mean scores of each risk management practices, information tracking enhances performance, Increased Liquidity, Increased profitability; improved performance, increased market share 13.75% and increased organizational efficiency had 75%. Other factors which affect performance of housing finance bank. The responses were that credit policy as a factor affecting performance of organizations, employee performance, capital, customer base and competition.

5.3 Recommendations

Basing on the study findings, a number of recommendations are put forward so as to facilitate in ensuring the proper risk management.

Bank's top management and board of directors must base their investment decisions primarily on risk management. They must use detailed information on integrated risk management at their company and weigh these risks against those of new investments. The board of directors of financial institutions should be made up of individuals who understand the risks of derivatives

and structured products. The risk management committee must actively monitor the firm's risks. Top executives' risk appetite must be defined, known, and monitored by the board

Issuers of structured products need to be more responsible. They must retain a large fraction of the baskets of loans they issue, possibly the entire equity tranche and a fraction of the more senior tranches in the presence of risk correlation between tranches. This should heighten the incentive to apply better risk management in loan issuance and obtain better portfolios of loans to securitize.

Greater transparency is required in the trenching of structured products. Market participants and researchers should be able to replicate their composition, and public databases containing this information should be offered. The growing complexity of structured financial products poses major challenges related to effective management and dissemination of information. More transparency is therefore indispensable in the credit market, particularly when loans are securitized.

Institutional changes in several countries are needed to reinforce independence or reduce vulnerability to externalities of international markets. Institutions must understand the technology available. Common data collection and affordable communication methods between financial institutions should produce effective tools to verify and replicate the analyses of agencies' ratings and the packaging of trust companies' structured products. These data should be available to all groups of investors, similar to other market data.

Time budget and time remainders of financial members in order to make the proper use of time through time budget and time remainders like wall watches are very genuine to assists workers in knowing how long have worked and how they can use the remaining time productively. The office should therefore arrange the provision of wall watches in each office and insisting every employee to have a time budget that can also be regarded as a performance measure so as to facilitate the good use of time.

Provision of working tools: In order to serve time in doing any office work, enough facilities or tools are needed. Such tools include enough stationeries, machines like computer and furniture. From the study findings one of the problem that results into wastage of a lot of time, is absence

of enough working tools like computers, something which force some of the departments or sections to use one computer which some of them are old fashioned computers which are very slow.

Responses on what should be done to improve the performance of housing finance bank. The responses were that "There is need to put in place an internal control system capable of swiftly dealing with newly recognized risks arising from changes in environment.

The need for bank has backups of software and data files, the need for separation of duties between those who generate risks and those who manage and control risks.

More technically advanced risk measurement approaches and the need for internal auditor is responsible to review and verify the risk management systems, guidelines and risk reports.

5.4 Areas of further study

Because of time and resources, the researcher recommends for the adoption of the following further areas of risk management and performance of commercial banks.

- Credit policy and performance of commercial banks
- Interest rate and performance of commercial banks
- The role of ICT on performance of commercial banks

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Appendices i: Appendix, Research instrument

Dear Respondent, I am carrying out a study entitled **"Risk management and performance of commercial banks: A case study of housing finance bank".** The study is intended to identify the various risk mechanisms, financial performance and establishing the relationship between risk management and performance of housing finance bank.

I am sure you are a very busy person. However, due to your experience, expertise and knowledge, I would like to request you spare a few minutes and fill in this questionnaire. Please note that, the information given in this questionnaire is only for academic purposes and will be treated in strict confidence. Thanks a lot for your time. **Achieng Esther**

SECION A; GENERAL INFORMATION

1. Gender

   Male ☐

   Female ☐

2. In which age bracket are you?

   18 - 28 Years ☐

   29- 38 Years ☐

   39 - 49 Years ☐

   50+ Years ☐

3. Education level

   Certificate ☐

   Diploma ☐

   Degree ☐

   Post graduate ☐

   Others ☐

SECTION B: Risk Mechanisms employed by banks in the management of risks

4. Does your organization have risk management mechanisms in your bank?

   Yes ☐

   No ☐

   Not sure ☐

5. What type of risks do you face in your organization?

   Financial risks ☐

   Operational risks ☐

   Credit risk ☐

   Reputation risk ☐

   Liquidity risk ☐

6. What are some of the mechanisms employed to combat risks in your organization?

   Please tick in the box of your agreement

Response	
The bank regularly confirms a guarantor's intention to guarantee their financing	
There are credit limits for individual counterparty	
The bank regularly conducts simulation analysis and measure benchmark (interest) rate risk sensitivity	
The bank has a quantitative support system for assessing customers' credit standing	
A computerized support system for estimating the variability of earnings and risk management is in place	
The bank regularly assessed the positions of profit and loss	
The bank has a reserve that can be used to increase the profit share (rate and return) of depositors and investment accountholders in low performing period	

7. What are the loop holes associated with risk management in your bank?

Please tick in the box of your agreement

Responses	
High cost of implementation	
Defaults in payment	
Poorly staffed risk management	
Poor management procedures	
Total	

Section C: Financial performance of housing finance bank

8. How is the performance of housing finance bank?

Very good

Good ☐

Poor ☐

Very poor ☐

9. May you comment on the general performance of housing finance bank, in terms of

Please tick

	Poor	Good
Profits	☐	☐
Market growth	☐	☐
Sales performance	☐	☐
Market share	☐	☐

10.Relationship between risk management and financial performance of housing finance bank

Responses	
There is need to put in place an internal control system capable of swiftly dealing with newly recognized risks arising from changes in environment	
sThe need for separation of duties between those who generate risks and those who manage and control risks	
The need for internal auditor is responsible to review and verify the risk management systems , guidelines and risk reporting	
The need for banks to has backups of software and data details	
More technically advanced risk management approaches	
Total	

11Does risk management influence the financial performance of housing finance bank?

Yes ☐

No . ☐

Not sure ☐

12. If yes, how does risk management influence the performance of housing finance bank?

Please tick in the box provided

Responses	
Improved performance	
Increased profitability	
Increased market share	
Improved information tracking	
Increased Liquidity	
Increased organizational efficiency	

13.Mention other factors that may affect financial performance of commercial housing financial bank? **Please tick in the box provided**

Responses	
Credit policy	
Employee performance	
Capital	
Customer base	
Competition	

Appendix ii: Slovene's formula for determining sample size

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

Where

n = sample size

N = population size

e= level of significance 0.05

For this study:

$$n = \frac{100}{1+100(0.05)^2}$$

$$\frac{100}{1+100(0.0025)}$$

$$\frac{100}{1+0.25} = \frac{100}{1.25}$$

n= 80

Appendix iii: Research Budget

Items	QTY	UNIT COST	AMOUNT
Ream of rule paper	10	20,000	200,000=
Editing data, printing and binding		50,000	50,000=
Motivation and refreshment			50,000=
Miscellaneous		80,000	80,000=
TOTAL			**380,000=**

APPENDIX iv: Research time frame

NO	ACTIVITY	Time Months
1	Variable formulation	March 2014
2	Chapter one formulation and design	April 2014
3	Literature & Methodology	May 2014
4	Data collection	Late 2014
5	Data analysis	May, 2014
6	Report writing and submission	May, 2014