

**RISK MANAGEMENT AND FINANCIAL PERFORMANCE
A CASE STUDY OF ECOBANK (U) LIMITED**

**NDAGIRE LYDIA
12/U/300/GMBA/PE**

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DECLARATION

I hereby declare that this dissertation is my own original work towards the award of a Master in Business Administration and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for award of any other degree of any university, except where due acknowledgments have been made in the text.

Signature:.....

Date:.....29-12-2014.....

NDAGIRE LYDIA

12/U/300/GMBA/PE

APPROVAL

This is to certify that the dissertation carried out by Ndagire Lydia under the title "*Risk Management and Financial Performance; a case Study of Ecobank (U) Limited*" was carried out under our supervision and is now ready for examination by the Board of Examiners as a requirement for the award of a Master Degree of Business Administration of Kyambogo University.

Certified by:

Signed: 

DR. NABETA NKOTE ISAAC
SUPERVISOR

Date: 29-12-14

Signed: 

TULYAHEBWA MERSAIN
SUPERVISOR

Date: 30th/12/2014

DEDICATION

I dedicate this research to the almighty God who always blesses me in all my endeavors and to my mother Miss Sarah Namubiru and Auntie who have always encouraged me.

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ABSTRACT

The study assessed the relationship between “*Risk Management and Financial Performance*”; based at Ecobank (U) Limited. This was guided by the following specific objectives; to examine the relationship between risk identification and financial performance, to ascertain the relationship between risk analysis, mitigation and financial performance, and to investigate the relationship between risk monitoring and financial performance of Ecobank (U) Limited. The methodology adopted a case study research design. Data collected and used include both primary and secondary data which was collected by use of self-administered questionnaires and an interview guide. The findings of the study revealed there was a strong positive correlation between risk identification and financial performance. The study findings were that the risk management (Risk Identification, Risk analysis & mitigation and Risk Monitoring) had a positive effect on financial performance. Failure to adequately identify risks increased loan default which was found to be between (38%-51%) in the period 2011 and 2013 of non-performing loans and reduced growth rate to -0.97. Results based on the regression model the predictor variables of Risk Management explain 26.7% of variations in financial performance of Ecobank by 57.4%.

The study concludes that , There is Relationship between risk analysis, mitigation and financial performance ($r=0.303$; $p>0.035$, <0.05). The study results therefore show that risk analysis and mitigation have a positive effect on Financial Performance. This is explained by the positive correlation co-efficient between the two variables ($r = 0.303$). Low levels of risk analysis and mitigation make Financial Performance difficult for the Ecobank. There is a strong relationship between Risk Monitoring and Financial Performance of Ecobank ($r=0.052$; $p>0.73$, <0.05). The study recommends that, there is therefore the need for the bank to develop an integrated risk management system which ensures a systematic and comprehensive approach to managing risks across the bank. This makes the bank’s business activities become more varied. Management will therefore need a portfolio view of all the various risks and developing a strategy to manage them with the view of benefiting from diversification effects. Such an integrated approach can help senior management realize the relationships between the various risk exposures as well as their multidimensional effect on the bank.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter discusses the background to the study, the statement of the problem, purpose, objectives of the study, research questions, scope, significance of the study, definition of key terms and the conceptual framework.

1.1 Background to the Study

Globally, risks that create severe loss exposures in the financial sector include; interest rate risk, foreign exchange risk, political risk, market risk, liquidity risk, operational risk and credit risk and bankruptcy, (Acharya, Mehran and Thakor, 2010). The banking industry is normally affected by systematic risks such as internal controls, corporate governance and information technology systems, International Organization for Standardization, (ISO 31000). Risks can arise as a result of uncertainty in financial markets, project failures, legal liabilities and natural disasters as well as deliberate attack from an adversary, or events of uncertain or unpredictable root-cause, (Rossouw, 2010).

Risk management processes are put in place to control, limit and or overcome financial exposures, (Greenberg, 2009). Good risk management is not only a defensive mechanism, but also an offensive weapon for performance quality of a business. The process of risk management comprises the fundamental steps of risk identification, risk analysis and assessment, risk audit, monitoring, and risk treatment or control, evaluating and preventing risks, (Baxter, 2008).

Ahmed (2009) reveals that acceptable financial performance as a situation where depositor's funds are safe in a stable banking system. Cebenoyan and Strahan. (2010) observed that financial performance is measured using cash inflows and outflows, net present value, internal rate of return; the time of accounting information systems. Therefore, improving financial management requires a firm to strengthen its cash position, working capital figures, the company's operations and financial accounts through reducing risks by implementing effective risk management strategies. The health of the banking sector has continued to improve to 70 percent per annum, in

the last eight years, following the adoption of the risk based supervision regime and improvement of the regulatory environment to align it with international standards, (Acharya et.al, 2011).

Failure to manage risks affected financial institutions and the credit standards during the global financial crisis this also affected contracting of market risk premiums, (Bernanke, 2008). This crisis was due to the institutes' limited risk management practices, which resulted into actual losses, potential liquidity problems and deteriorating credit conditions. U.S. banks' earnings declined by 7.7% (\$37.2 billion down from \$40.3 billion in 2013), as higher interest rates dampened demand for mortgage refinancing and reduced banks' revenue business, Federal Deposit Insurance Corp, (FDIC, 2013). In Uganda, banks like Barclays Bank had operating costs in 2008 grow by over 100% and yet it also posted a net operating loss for the last three years running of 4.7 billion shillings (\$2.3 million) in 2009 compared to that of 17.9 billion shillings a year earlier over, Mugalu, (2010).

Ecobank (U) Limited operating within the same economic environment seemed to experience similar challenges. Ecobank (U) Limited is a member of Togo's Ecobank Transnational Inc. (ETI), established in 1985. The Bank began its operations in January 2009 as a service bank, providing wholesale, retail, investment and transaction banking services and products to governments, financial institutions, multinationals, international organizations, medium, small and micro businesses and individuals. According to the audited financial report of December 2012, the bank's total assets were valued at about US\$66.1million (UGX: 164.4 billion), with shareholders' equity of approximately US\$6.3 million (UGX: 15.9 billion), [Audited Financial Report, 2012]. It was not clear as to whether the persistent decline in the profit margins, increasing number of dormant accountholders, high loan defaults and increasing high interest rates (Taddewo, (2014), at Ecobank are as a result of practicing ineffective risk management. If this problem remains unchecked, then financial performance is likely to remain a misery. Thus, it was against this background that there was an urgent need for a research to be conducted to establish the relationship between risk management and financial performance a case study of Ecobank (U) Limited

1.2 Statement of the Problem

Taddewo (2014) revealed that Ecobank's financial losses shoot up from Ushs 600 Million in 2011 to 12.2 billion in 2012, an increase of 40.98% to 17.2 billion in 2013, due to failure to identify and mitigate employee fraud, monitor and analyze credit and inflation risks. Ecobank's current growth rate of -0.97% and market share of 1.02% as of 31st December 2013, (Directors' report on financial performance, 2013), are indicators of poor financial performance. Executive management remained closely involved in important risk management initiatives, which have focused particularly on preserving appropriate levels of liquidity and effectively managing the risk portfolios, but the problem persisted, (Kasingye- the Head of Risk). If this continues then financial performance will constantly drop causing liquidation (Ahmed, 2009). This stirred the need to conduct an urgent study to examine the relationship between risk management and financial performance at Ecobank (U) Limited.

1.3 Purpose of the Study

The study aimed at establishing the relationship between risk management and financial performance in Ecobank (U) Limited. The Banking sector is characterized with risks that curtail operational profits. Hence there is need to develop coherent risk management strategies to improve financial performance in the financial industry. If banks fail to manage risks, liquidity levels will lower, profits will drastically reduce, returns on investment will lower, portfolio growth will tarnish and this will directly hamper financial performance. Banks cannot operate without an efficient risk management system to curb inflationary, credit as well as foreign exchange risks.

1.4 Objectives of the Study

- i) To examine the relationship between risk identification and financial performance of Ecobank (U) Limited.
- ii) To analyze the relationship between risk analysis, mitigation and financial performance of Ecobank (U) Limited
- iii) To assess the relationship between risk monitoring and financial performance of Ecobank (U) Limited

1.5 Research Questions

The study was guided by the following research questions;

- i) What is the relationship between risk identification and financial performance of Ecobank (U) Limited?
- ii) What is the relationship between risk analysis, mitigation and financial performance of Ecobank (U) Limited?
- iii) What is the relationship between risk monitoring and financial performance of Ecobank (U) Limited?

1.6 Scope of the Study

1.6.1 Subject Scope

The study focused on examining the relationship between of risk management and financial performance of Ecobank (U) Limited. The study specifically looked at risk management as the independent variable which was measured by risk identification, analysis and mitigation, Monitoring. Financial performance is the dependent variable and was measured by looking at Profitability (Earnings after Tax), Liquidity and loan Portfolio growth.

1.6.1 Geographical scope

The study was conducted from Ecobank (U) Limited, head office branch located at Kampala. The bank was chosen because it was ranked the 17th out of 26 declining performing commercial banks in Uganda by December 2013,(CEO magazine, 2013)

1.7 Significance of the Study

The study findings may divulge the relationship between risk management and financial performance of Ecobank (U) Limited and may be useful in the following ways;

The findings may help the management of Ecobank (U) Limited to undertake sustainable risk management procedures and strategies by overcoming risk challenges to improve the health of its financial performance.

Policy makers may utilize the study findings in formulating better policies such as Taxation of financial institutions and programs on how to manage and implement Risk management policies so as to provide financial management systems to enhance revenue performance.

Ministry of finance planning and economic development plus the central bank will be able to utilize the study findings to regulate the financial industry by adopting strategic interventions that guide banks to uphold risk management systems. This will promote better economic development.

The study results may bridge the gap in the existing literature to facilitate ongoing researchers and scholars with data to explore the concept of risk management in relation to financial performance through utilizing the materials available in this book.

1.8 Conceptual Framework

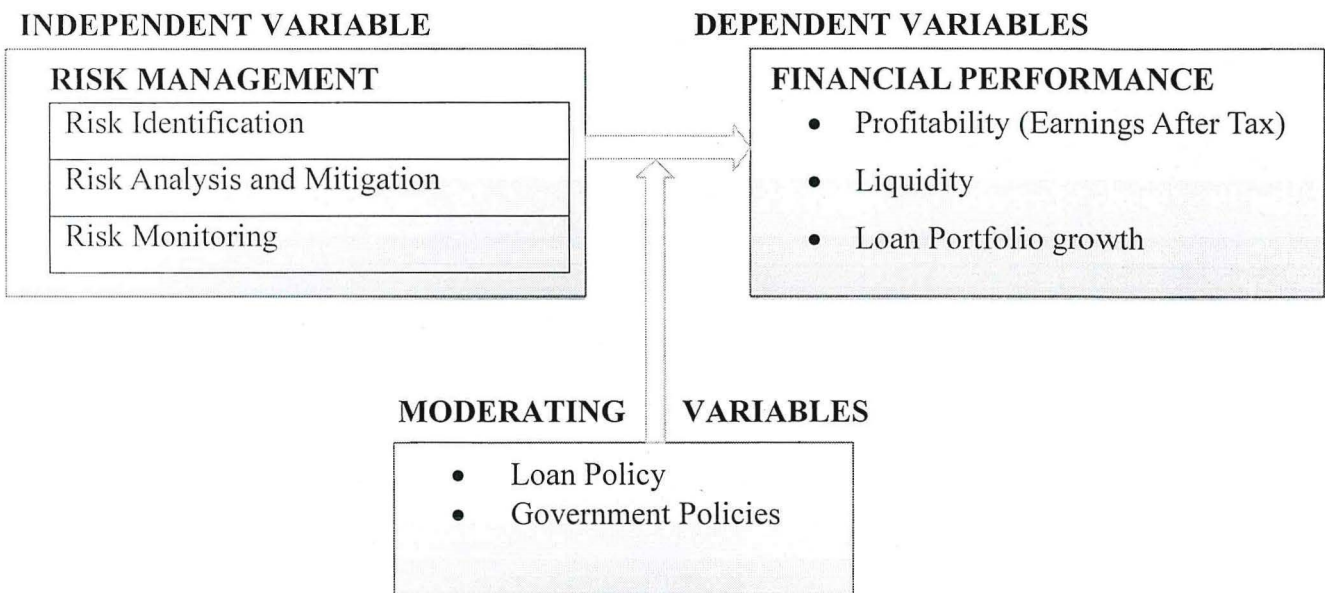


Figure 1: Illustrating the Conceptual Framework

Source: *Adopted from International Organization for Standardization (ISO/DIS 31000, 2008)*

Figure 1 above illustrates the interplay of the independent variable, dependent variable and moderating variables. Risk management affects financial performance. From the diagrammatic

illustration above, risk management components such as Risk Identification, Risk Analysis & Mitigation and Risk Monitoring are considered to improve financial performance as measured using profitability (EAT), liquidity and portfolio growth. When Risks are adequately managed, financial performance improves and vice versa. However, moderating variables like the loan policy and political policies directly affect both Risk management and financial performance.

1.9 Operational Definition of key terms

Capital adequacy ratio: is the ratio of adjusted equity base to risk adjusted asset base as required by the Bank of Uganda (BoU), i.e. Total regulatory capital / Total risk weighted assets.

Cash assets: include cash on hand, balances with the central bank, money at call or short notice, and cheques in course of collection and clearing.

Core Customer Deposits include current accounts, cash collateral account, individual consumer savings, and money market accounts.

Cost income ratio = Non-interest operating expenses / Operating income.

Interest Rates Sensitive Assets refers to assets principally of loans with maturity within a year.

Interest Rates Sensitive Liabilities refers to liabilities principally of deposits with maturity within a year.

Liquid assets include cash assets and assets that are relatively easier to convert to cash, e.g., investments in government securities, quoted and unquoted debt and equity investments, equity investments in subsidiaries.

Loan loss provisions = (General & specific provisions for bad debts for + Interest in suspense) / Gross loans and advances.

Net interest income = Total interest income - Total interest expense

Non-performing loans refers to loans and advances with payments of interest and principal past due by 90 days or more, or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons to doubt that payments will be made in full.

Risk-weighted assets refer to bank assets adjusted for risk.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter explores review of related literature as advanced by different scholars and authors in relation to the study objectives spelt out in the previous chapter. The information is a combination of extracts, paraphrased statements from textbooks, pamphlets, journals, magazines, websites, publications and other official reports related to Risk management and financial performance.

2.1 Risk Management

According to Scott and Arias, (20011), Banks operate with many products and these products bring many risks. In the present day volatile environment, banks are facing a large number of risks such as credit risk, liquidity risk, operation risk, foreign-exchange risk, market risk, and interest rate risk. (Bank of Uganda, 2009). As a result, risk and risk factors may threaten the banking industry's survival and success. The Basel Committee on Banking Supervision has adopted a new accord, which is called the "Basel II". The primary purpose of the "Basel II" is to stabilize the international banking system and thus level the playing field. "Basel II" emphasizes capital adequacy, risk management techniques, internal controls, and external audits (Bank of Uganda, 2009). Banks are required to comply with the standardized approach and measure risk exposure for capital adequacy. Regulatory agencies are responsible for imposing "Basel II" in their jurisdictions. Since understanding risk and application of contemporary risk management techniques is a very important aspect, Banks should give priority to the area of risk management practices.

According to Ahmed (2009) Risk management therefore is a transmission and control mechanism, which encapsulates different approaches of how firms choose between the risk-return profiles of alternative (investment) strategies to maximize shareholder value.

Heinz (2010) observed that, Risk management commonly perceived does not mean minimizing risk rather the goal of risk management is to optimize risk reward trade-off notwithstanding the fact that banks are in the business of taking risk.

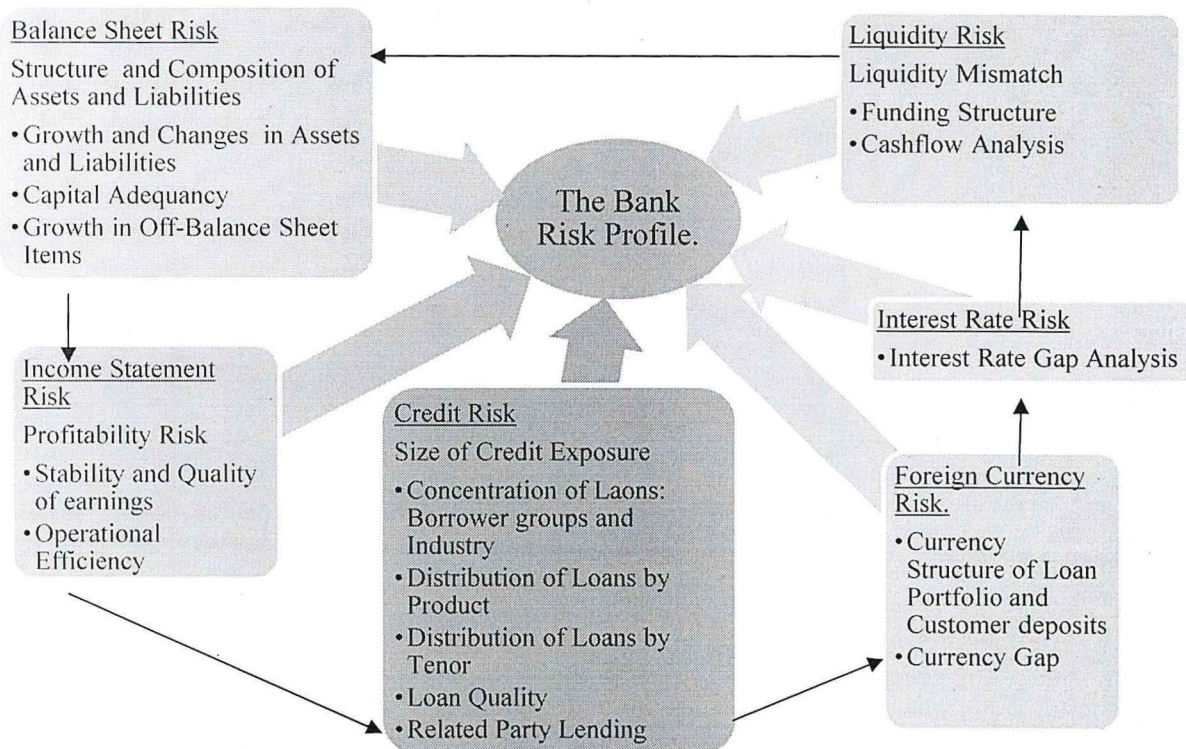
Bessis (2010) notes that, Risk management evolved from a strictly banking activity, related to the quality of loans, to a very complex set of procedures and instruments in the modern financial environment. It underscores the fact that the survival of an organization depends heavily on its capabilities to anticipate and prepare for the change rather than just waiting for the change and react to it. Risk is associated with uncertainty and reflected by way of charge on the fundamental /basic perhaps in the case of business it is the capital, which is the cushion that protects the liability holders of an institution. These risks are interdependent and events affecting an area can have ramifications and penetrations for a range of other categories of risk. There is therefore, the need to understand the risks run by banks and to ensure that the risks are properly confronted, effectively controlled and rightly managed. Each transaction that a bank undertakes however changes the risk profile of the bank thereby making it a near impossibility to provide real time risk update and profile of the institution, (Imad, 2011).

Kiyota (2009) Risk Management (RM) is described as the performance of activities designed to minimize the negative impact (cost) of uncertainty (risk) regarding possible losses. Risk management is a systematic process for the identification, evaluation of pure loss exposure faced by an organization or an individual, and for the selection and implementation of the most appropriate techniques for treating such exposures. The process involves: identification, measurement, and management of the risks. Bessis (2010) also adds that in addition to it being a process, risk management also involves a set of tools and models for measuring and controlling risk. The objectives of risk management include the minimization of foreign exchange losses, reduction of the volatility of cash flows, protection of earnings fluctuations, increment in profitability and assurance of survival of the firm.

2.2 Risk Identification and Financial Performance

According to Brand (2009) states that risk identification aims to help staff members engaged in planning and risk management activities to understand: the importance of the risk identification step, some methods and sources for identifying risks and other considerations associated with identifying a risk.

Figure 2.1: Components of a Bank's risk profile



Source: Adapted From African Development Bank (2011), Portfolio Credit Risk Review, Financial Management Department

According to Mminele (2009) identifying risks is the first and perhaps the most important step in the risk management process. It involves generating a comprehensive list of threats and opportunities based on events that might enhance, prevent, degrade, accelerate or delay the achievement of organizational objectives. If firms don't identify a risk, then they can't manage it. It's also important to scan the environment from time to time to identify new and emerging risks, as the department's exposure to risk may be constantly changing.

According to Torben (2009) Risk identification is the basic stage in risk management. It is a process that reveals and determines the possible risks facing the resources of an organization. Changes in the environment require that continuous attention to identification of risks be made for purposes of revealing new risks and designing controls for them.

Torben (2009) notes that, the risk identification process is characterized by identification of sources of risks, hazard factors, perils and resource exposures to risk. Sources of risk are elements of organizational environment that can bring negative outcomes, which may include physical, social, political, operational, economic, legal or cognitive environment Hazard is a condition or circumstance that increases chance of losses and their severity. Peril is something that is close to risk and has negative non-profitable results. Exposures to risk are objects facing possible losses, and can be categorized as physical resources, human resources and financial resources. Other resources that can be exposed to risk are the intangibles such as goodwill and organizational image (Scott and Arias, 2011). It is believed that correct risk identification ensures effective risk management.

Thakor (2010) observed that, Risk identification is the basic step of risk management. This step reveals and determines the potential risks which are highly occurring and other events which occur very frequently. Risk is investigated by looking at the activity of organizations in all directions and attempting to introduce the new exposure which will arise in the future from changing the internal and external environment. Correct risk identification ensures risk management effectiveness.

Murinde (2009) argues that, Risk identification is instrumental in managing risk in organizations. Mark adds that, establishing the context is the first step in the process of managing risk. Risk identification starts with the source of problems, or with the problem itself. Risk sources may be internal or external to the system and this call for internal and external mitigating factors. Risk sources include, stakeholders like employees of a company.

Acharya, Pagano and Volpin (2011) agrees with Balunywa (2006) that, threats may exist with various entities, most important with shareholders, customers and legislative bodies such as the government. When either source or problem is known, the events that a source may trigger or the events that can lead to a problem can be investigated.

Ahmed (2009) adds that, there are a number of methods of identifying risks on culture, industry practice and compliance. Common risk identification methods include; Objectives-based risk

identification: Organizations and project teams have objectives. Any event that may endanger achieving an objective partly or completely is identified as risk. Scenario-based risk identification: In scenario analysis different scenarios are created and they may be the alternative ways to achieve an objective, or an analysis of the interaction of forces in, for example, a market. Any event that triggers an undesired scenario alternative is identified as risk. Taxonomy-based risk identification: The taxonomy in taxonomy-based risk identification is a breakdown of possible risk sources. Based on the taxonomy and knowledge of best practices, a questionnaire is compiled and responses fully identified, (Basel Committee on Banking Supervision, 2009). Common-risk checking: several industries' lists with known risks are available. Each risk in the list can be checked for application to a particular situation. Risk charting: This method combines the above approaches by listing resources at risk, threats to those resources, modifying factors which may increase or decrease the risk and Consequences it is wished to avoid, (Bekaert, Ehrmann and Mehl, 2011).

Beltratti and Stultz (2011) note that, the primary function of knowledge base is to identify the clients that should be given particular attention, and to ensure that time is not spent monitoring more stable clients (automatically monitored by the system). The system may also be used to support the establishment of new client relationships, as well as to monitor the development of the client relationship on both an individual and group level. The knowledge base consists of variables representing specific characteristics that determine the loan repayment behavior of the client, such as housing conditions, marital status, income, profession and conditions of employment. Obtain the likelihood of a high credit limit and a high ability to pay increases therefore a high loss.

Boot and Thakor (2010) revealed that, the goal of credit risk identification is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions.

The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization. The Basel

Committee encourages banking supervisors globally to promote sound practices for managing credit risk. Credit risk management is risk assessment that comes in an investment. Risk often comes in investing and in the allocation of capital. The risks must be identified and assessed so as to derive a sound investment decision and decisions should be made by balancing the risks and returns, (Basel Committee on Banking Supervision, 2009).

Baxter (2008) noted that, giving loans is a risky affair for bank sometimes and certain risks may also come when banks offer securities and other forms of investments. The risk of losses that results from insufficient receipts from expected debtors is a kind of risk that must be expected for a bank to keep substantial amount of capital to protect its solvency and to maintain its economic stability. The greater the bank is exposed to risks, the greater the amount of capital it must have when it comes to its reserves, so as to maintain its solvency and stability. Banks should plan certain estimates, conduct monitoring, and perform reviews of the performance of the bank.

Bekaert, et.al (2011) state that, Banks should also do Loan reviews and portfolio analysis in order to identify the risk involved through; Increasing shareholder value through value creation, value preservation and value optimization, Increasing confidence in the market place, Alleviating regulatory constraints and distortions, allowing predicting and forecasting and also measuring the potential risk factor in any transaction, The banks management can also make use of certain credit models which can act as a valuable tool which can be used to determine the level of lending measuring the risk and it is always better to have some alternative techniques and strategies for transferring credit, pricing and hedging options, (Berger and Bouwman 2010).

According to Berger and Bouwman (2010) creating a matrix under these headings enables a variety of approaches. An organization begins with resources and considers the threats they are exposed to and the consequences of each. Alternatively one can start with the threats and examine which resources they would affect, or one can begin with the consequences and determine which combination of threats and resources would be involved to bring them about.

Berger and Bouwman (2010) argues that there are typically three kinds of policies related to credit risk management. The first set aims to limit or reduce credit risk, which include policies on

concentration and large exposures, diversification, lending to connected parties, and overexposure. The second set aims at classifying assets by mandating periodic evaluation of the collectability of the portfolio of credit instruments. The third set of policies aims to make provision for loss or make allowances at a level adequate to absorb anticipated loss.

Compliance Risk Identification

According Greuning & Bratanovic (2009) the aim of compliance risk identification is to identify the specific compliance risks that a bank must confront as comprehensively as possible, minimizing the possibility of oversight, and facilitating the subsequent in-depth analysis. The 'source' and 'impact' of risks form two dimensions to the risk identification phase. It is important to determine the source of the risk in order to understand what could cause it. Compliance risk management must therefore begin-in executive level forums by identifying risks to the vision or strategic objectives of the organization. Compliance risk management can be applied at the strategic (top-down) or operational/tactical level (bottom-up) or both. Risks identified at the strategic level usually require extensive and carefully managed interventions, whilst risks identified at the operational level can usually be dealt with as day-to-day business.

2.3 Risk Analysis, Mitigation and Financial Performance

Cebenoyan and Strahan (2010) noted that, Risk analysis is the effort to characterize the specific likelihood of and harm from a hazard. This is, assessing the likelihood of their occurrence and the extent of their impact; high likelihood and high impact suggesting high priority for action and deciding whether the existing precautions are adequate.

Boot and Thakor (2010) argue that, Risk analysis is concerned with assessing the potential impact of exposure and likelihood of the particular outcome actually occurring. The impact of exposure should be considered under the elements of time, quality, benefit and resource. This step determines the probability and consequences of a negative impact and then estimates the level of risk by combining the probability and consequences. The funding strategy on the net interest margins assumes that funding decisions in the future will be similar to the decisions that resulted in the bank's original re-pricing schedule, (Acharya, et al 2011)

Heinz-Peter Berg (2010) noted that, Risk mitigation needs to be approved by the appropriate level of management. For example, a risk concerning the image of the organization should have top management decision behind it. A good risk management plan should contain a schedule for control, implementation and responsible persons for those actions.

According to Imad, Qais & Thair (2011) after identifying department-wise and activity level risk, management should perform a risk analysis. The methodology may vary since risks are difficult to quantify; however, the process generally includes the following; estimating risk significance, assessing likelihood/frequency of occurrence, and considering how to manage risk. Risk with little significance and low probability of occurrence may require special attention.

Imad et.al. (2011) reveal that, after assessing the significance and likelihood of risk, management must determine how to control it. Approaches may differ among entity, but they must be designed to maintain risk within levels deemed appropriate by management, considering the concepts of reasonable assurance and cost-benefit. Once implemented, the approach should be continually monitored for effectiveness.

Owojori and Adidu (2011) lamented that, Authorities need a mechanism for objectively assessing the relative size of compliance risks in the context of organizational business priorities. Not all risks will necessarily be able to be addressed. What's needed is a balanced approach to the treatment of a wide range of risks. Assessment and prioritization needs to be firmly based upon objective evidence. A balanced approach to risk prioritization may see some risks being addressed that may not represent today's highest revenue exposure.

According to Luy (2010) a risk register that has been quantified and prioritized according to the risk likelihood and consequence processes. Documented organizational compliance priorities that form the compliance programme for the year of effect. Central to the process of assessing and prioritizing risks is the need for a sound framework within which compliance risks of all types can be comparatively assessed in a repeatable manner. Decisions concerning compliance risk acceptability and treatment need to be based on an agreed set of quantitative and qualitative criteria.

Mminele (2009) stated that, assessing and prioritizing compliance risks are thus principally about quantifying the risks identified in the previous risk management phase. The purpose of this step is to separate the major risks (that need to be treated specifically) from the more minor ones. This requires consideration of the sources of specific risk identified an assessment of its potential consequences in terms of achieving corporate objectives, and judgment as to the likelihood that the consequences will occur (in the absence of any specific treatment). It relies upon the use of data and information to substantiate the consequences that are likely to be incurred if the risk occurs and/or remains unaddressed.

Consequence Measurement

According to Nyaoma (2009) consequence is measured in terms of the impact that a risk would have on the achievement of organizational objectives. This may be in the form of either qualitative or quantitative measurement or both but as a minimum should be relevant to the intended objective under consideration. Decisions about which risks handle or treat and which to monitor will potentially be impacted by many different issues, including: internal capability, is there an effective treatment? ,is there an effective capability to implement the treatment?, risk rating/level, the rate of risk infection or risk rating deterioration, the current return of treatment (only recover revenue this year), the ongoing return of treatment (recover revenue in every year into the future), public perceptions of administration around the risk, the cost/benefits of proposed treatments (this is a feedback loop from the next step), and the wider context of the risks as a group. These issues form the basis on which the effectiveness of treatment strategies will ultimately be evaluated, (Nyaoma, 2009).

Owojori & Adidu (2011) lamented that, definitive risk ratings usually inform who in the organization is responsible for dealing with the risk. For example, it is appropriate that risks rated as highest on the scale of consequence and likelihood (e.g. a 'severe' risk) will be managed at the highest level of management in the organization. This will typically involve close and detailed liaison with government representatives and perhaps other agencies as well. As the severity of the compliance risk exposure decreases the organizational level at which the risk can be appropriately managed can reduce.

Adeusi, Stephen, Akeke, Niyi, debisi,Obawale, Oladunjoye, Olawale (2013) state Market Risk as the risk to earnings arising from changes in underlying economic factors such as interest rates or exchange rates, or from fluctuations in bond, equity or commodity prices. Banks are subject to market risk in both the management of their balance sheets and in their trading operations. Market risk is generally considered as the risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in value of the market risk factors. There are three common market risk factors to banks and these are liquidity, interest rates and foreign exchange rates.

According to World Economic Forum (2008) Market Risk Management provides a comprehensive framework for measuring, monitoring and managing liquidity, interest rate, foreign exchange and equity as well as commodity price risk of a bank that needs to be closely integrated with the bank's business strategy.

In a nutshell, Market Risk Management provides a comprehensive framework for measuring, monitoring and managing liquidity, interest rate, foreign exchange and equity as well as commodity price risk of a bank that needs to be closely integrated with the bank's business strategy

2.4 Risk Monitoring and Financial Performance

Ramcharan (2009) argues that, Banks monitor the credit risk standing of their customers by monitoring their fulfillment of contractual repayment schedules, their business performance, financial position, qualitative factors, and other indicators. Especially for customers to which they have major credit exposure and may have a major impact on management, monitoring carried out more strictly and on a continuing basis improves access to capital and investment potential.

According to Rossouw (2009) to monitor the credit risk of the Group's portfolio, related data is classified according to assigned credit rating, industry, region, and other criteria. Based on this classification, Group banks calculate credit risk exposure, average credit loss amount, credit risk

amounts, and other indicators and follow carefully and analyze changes in credit risk, concentrations of credit risk, and risk versus return conditions.

Sabato (2009) noted that when change occurs in an organization it often affects the control activities that were designed to prevent or reduce risk. In order to properly manage risk, management should monitor any change to ensure that each risk continues to be managed as change occurs. Management should inform employees responsible for managing the organization's most critical risks about any proposed changes that may affect their ability to manage those risks. Managers should continually monitor the factors that can affect the risks they have already identified as well as other factor that could create new risks.

According to Scott and Arias (2011) when screening applications for credit, Group banks examine and gain a firm grasp of the applicant's financial position, uses of funds, resources for the repayment of obligations, and other related matters, and, then taking account of special risk characteristics or other issues, perform appropriate credit analyses. Torben (2009) observed that, to deal with concentrations of exposure to specific customers or groups of customers, in view of possible repercussions for the Resona Group's management, Group banks set credit limits, or credit ceilings, and adopt other measures to manage such circumstances.

Thakor (2010) advised that, a bank should have a reliable management information system designed to provide the board of directors, senior management and other appropriate personnel with timely and forward-looking information on the liquidity position of the bank. The management information system should have the ability to calculate liquidity positions in all of the currencies in which the bank conducts business – both on a subsidiary/branch basis in all jurisdictions in which the bank is active and on an aggregate group basis. It should capture all sources of liquidity risk, including contingent risks and the related triggers and those arising from new activities, and have the ability to deliver more granular and time sensitive information during stress events.

Ahmed (2009) advocated that to effectively manage and monitor its net funding requirements, a bank should have the ability to calculate liquidity positions on an intraday basis, on a day-to-day

basis for the shorter time horizons, and over a series of more distant time periods thereafter. The management information system should be used in day-to-day liquidity risk management to monitor compliance with the bank's established policies, procedures and limits.

According to Beltratti and Stultz (2011) to facilitate liquidity risk monitoring, senior management should agree on a set of reporting criteria, specifying the scope, manner and frequency of reporting for various recipients (such as the board, senior management, and asset – liability committee) and the parties responsible for preparing the reports. Reporting of risk measures should be done on a frequent basis (daily reporting for those responsible for managing liquidity risk, and at each board meeting during normal times, with reporting increasing in times of stress) and should compare current liquidity exposures to established limits to identify any emerging pressures and limit breaches. Breaches in liquidity risk limits should be reported and thresholds and reporting guidelines should be specified for escalation to higher levels of management, the board and supervisory authorities.

Berger and Bouwman (2010) revealed that, Monitoring of actual losses, incurred for inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from the expected losses. It can also include other classes of risk, such as fraud, security, privacy protection, legal risks, physical (e.g. infrastructure shutdown) or environmental risks. Moreover, they are not diversifiable and cannot be laid off; meaning that, as long as people, systems and processes remain imperfect, operational risk cannot be fully eliminated. Operational risk is, nonetheless, manageable as to keep losses within some level of risk tolerance (i.e. the amount of risk one is prepared to accept in pursuit of his objectives), determined by balancing the costs of improvement against the expected benefits, (Gilbert, Calitz and Plessis, 2009).

Simbanegavi (2009) stated that there are three common market risk factors to banks and these are liquidity, interest rates and foreign exchange rates. Market Risk Management provides a comprehensive framework for measuring, monitoring and managing liquidity, interest rate, foreign exchange and equity as well as commodity price risk of a bank that needs to be closely integrated with the bank's business strategy.

According to Greuning and Bratanovic (2009) a bank faces liquidity risk when it does not have the ability to efficiently accommodate the redemption of deposits and other liabilities and to cover funding increases in the loan and investment portfolio. These authors go further to propose that a bank has adequate liquidity potential when it can obtain needed funds (by increasing liabilities, securitizing, or selling assets) promptly and at a reasonable cost. The Basel Committee on Bank Supervision, in its June 2008 consultative paper, defined liquidity as the ability of a bank to fund increases in assets and meet obligations as they become due, without incurring unacceptable losses.

Bessis (2010) however considers liquidity risk from three distinct situations. The first angle is where the bank has difficulties in raising funds at a reasonable cost due to conditions relating to transaction volumes, level of interest rates and their fluctuations and the difficulties in funding counterparty. The second angle looks at liquidity as a safety cushion which helps to gain time under difficult situations. In this case, liquidity risk is defined as a situation where short-term asset values are not sufficient to match short term liabilities or unexpected outflows. The final angle from where liquidity risk is considered as the extreme situation. Such a situation can arise from instances of large losses which creates liquidity issues and doubts on the future of the bank. Such doubts can result in massive withdrawal of funds or closing of credit lines by other institutions which try to protect themselves against a possible default. Both can generate a brutal liquidity crisis which possibly ends in bankruptcy. There are many factors that affect banks own liquidity and in turn affect the amount of liquidity they can create. Such factors have a varying degree of influence on the balance between liquidity risk and liquidity creation, or a bank's liquidity management. A bank's assets and liabilities play a central role in their balancing of liquidity risk and creation.

Banks have three main sources of funds: deposit accounts, borrowed funds, and long term funds. The amounts and sources of funds clearly affect how much liquidity risk a bank has and how much liquidity it can create. The easier a bank can access funds the less risk it has and the higher amount of funds it holds the more liquidity it can create. Liquidity is necessary for banks to compensate for expected and unexpected balance sheet fluctuations and to provide funds for growth (Greuning and Bratanovic, 2009).

Rice and Strahan (2010) however, posits that while some would include the need to plan for growth and unexpected expansion of credit, the risk here should be seen more correctly as the potential for funding crisis. Such a situation would inevitably be associated with an unexpected event, such as a large charge off, loss of confidence, or a crisis of national proportion such as a currency crisis. Effective liquidity risk management therefore helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behavior.

The Basel Committee on Bank Supervision consultative paper (2009) asserts that the fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk, both of an institution-specific nature and that which affects markets as a whole. A liquidity shortfall at a single bank can have system-wide repercussions and hence liquidity risk management is of paramount importance to both the regulators and the industry players. The price of liquidity is conversely a function of market conditions and the market's perception of the inherent riskiness of the borrowing institution (Greuning and Bratanovic, 2009). So if there is a national crisis such as acute currency shortage or decline, or perception of the bank's credit standings deteriorates, or fundraising by the bank becomes suddenly important and recurrent or has unexpected fluctuation, funding becomes more costly. Financial market developments in the past decade have increased the complexity of liquidity risk and its management.

Bessis (2010) state that, interest rate risk is the potential for changes in interest rates to reduce a bank's earnings or value. Most of the loans and receivables of the balance sheet of banks and term or saving deposits, generate revenues and costs that are driven by interest rates and since interest rates are unstable, so are such earnings. Though interest rate risk is obvious for borrowers and lenders with variable rates, those engaged in fixed rate transactions are not exempt from interest rate risks because of the opportunity cost that arises from market movements.

According to Greuning and Bratanovic (2009) the combination of a volatile interest rate environment, deregulation, and a growing array of on and off-balance-sheet products have made

the management of interest rate risk a growing challenge. At the same time, informed use of interest rate derivatives—such as financial futures and interest rate swaps—can help banks manage and reduce the interest rate exposure that is inherent in their business. Bank regulators and supervisors therefore place great emphasis on the evaluation of bank interest rate risk management, particularly since the Basel Committee recommends the implementation of market risk-based capital charges.

Greuning and Bratanovic (2009) posits that banks encounter interest rate risk from four main sources namely reprising risk, yield curve risk, basis risk, and optionality. The primary and most often discussed source of interest rate risk stems from timing differences in the maturity of fixed rates and the re-pricing of the floating rates of bank assets, liabilities, and off-balance sheet positions. The basic tool used for measuring re-pricing risk is duration, which assumes a parallel shift in the yield curve. Also, re-pricing mismatches expose a bank to risk deriving from changes in the slope and shape of the yield curve (nonparallel shifts).

Yield curve risk materializes when yield curve shifts adversely affect a bank's income or underlying economic value. Another important source of interest rate risk is basis risk, which arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics. When interest rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread among assets, liabilities, and off-balance-sheet instruments of similar maturities or re-pricing frequencies, (Gilbert, et.al. 2009).

Beltratti & Stultz (2011) noted that, an increasingly important source of interest rate risk stems from the options embedded in many bank asset, liability, and off-balance-sheet portfolios. If not adequately managed, options can pose significant risk to a banking institution because the options held by customers, both explicit and embedded, are generally exercised at the advantage of the holder and to the disadvantage of the bank. Moreover, an increasing array of options can involve significant leverage, which can magnify the influences (both negative and positive) of option positions on the financial condition of a bank. Broadly speaking, interest rate risk management comprises various policies, actions and techniques that a bank uses to reduce the

risk of diminution of its net equity as a result of adverse changes in interest rates from any of the sources mentioned above,(Imad et.al, 2011).

Mminele (2009) revealed that, Risk factors related to interest rate risk are estimated in each currency in which a bank has interest-rate-sensitive on and off-balance sheet positions. Since interest rate risk can have adverse effects on both a bank's earning and its economic value, an approach which focuses on the impact of interest rate changes on a bank's net interest income is combined with another which takes a more comprehensive view of the potential long-term effects of such interest rates changes on its economic value is used to assess the interest risk exposure.

Bessis (2010) laments that Foreign Exchange Risk is the risk incurred when there is an unexpected change in exchange rate altering the amount of home currency need to repay a debt denominated in foreign currency. Such loss of earnings may occur due to a mismatch between the value of assets and that of capital and liabilities denominated in foreign currencies or a mismatch between foreign receivables and foreign payables that are expressed in domestic currency. According to Greuning and Bratanovic (2009) foreign exchange risk is speculative and can therefore result in a gain or a loss, depending on the direction of exchange rate shifts and whether a bank is net long or net short (surplus or deficit)in the foreign currency.

Luy (2010) in principle, the fluctuations in the value of domestic currency that create currency risk result from long-term macroeconomic factors such as changes in foreign and domestic interest rates and the volume and direction of a country's trade and capital flows. Short-term factors, such as expected or unexpected political events, changed expectations on the part of market participants, or speculation based currency trading may also give rise to foreign exchange changes. All these factors can affect the supply and demand for a currency and therefore the day-to-day movements of the exchange rate in currency markets.

Owojori and Adidu (2011) noted that Foreign exchange risk is generally considered to comprise of transaction risk, economic risk and revaluation risk. Transaction risk is the price-based impact of exchange rate changes on foreign receivables and foreign payables, that is, the difference in

price at which they are collected or paid and the price at which they are recognized in local currency in the financial statements of a bank or corporate entity. With increasing globalization, capital moves quickly to take advantage of changes in exchange rates and therefore devaluations of foreign currencies can lead to increased competition in both overseas and domestic markets. The third component, revaluation or translation risk arises when a bank's foreign currency positions are revalued in domestic currency, and when a parent institution conducts financial reporting or periodic consolidation of financial statements. Banks conducting foreign exchange operations are also exposed to foreign exchange risk in forms of credit risks such as the default of the counterparty to a foreign exchange contract and time-zone-related settlement risk.

The Basel Accord (2009) defines operational risk as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Malfunctions of the information systems, reporting systems, internal monitoring rules and internal procedures designed to take timely corrective actions, or the compliance with the internal risk policy rules result in operational risks (Bessis, 2010). Operational risks, therefore, appear at different levels, such as human errors, processes, and technical and information technology. Because operational risk is an event risk, in the absence of an efficient tracking and reporting of risks, some important risks will be ignored, there will be no trigger for corrective action and this can result in disastrous consequences. Developments in modern banking environment, such as increased reliance on sophisticated technology, expanding retail operations, growing e-commerce, outsourcing of functions and activities, and greater use of structured finance (derivative) techniques that claim to reduce credit and market risk have contributed to higher levels of operational risk in banks, (Greuning and Bratanovic, 2009).

The recognition of the above-mentioned contributory factor in operational risk has led to an increased attention on the development of sound operational risk management systems by banks with the initiative being taken by The Basel Committee on Banking Supervision. The Committee addressed operational risk in its Core Principles for Effective Banking Supervision (1997) by requiring supervisors to ensure that banks have risk management policies and restoring it when it has been damaged. The latter two, especially, call for very different actions (and actors).

Reputation is a dynamic asset, changing as organizations present new services and products in new markets, being held to changing criteria and facing unforeseen challenges.

2.5 Financial performance

Ahmed, (2009), found out that a well-judged technique named CAMELS “Sensitivity to Market risk” rating is widely used for evaluating financial performance of banks. Performance of the banking sector under CAMELS framework involves analysis and evaluation of the six crucial dimensions of banking operations. Thus CAMELS consists of a set of performance measures that give a comprehensive view of the banks based on the following rates;

Capital Adequacy; Focuses on the total position of bank capital and protects the depositors from the potential shocks of losses that a bank incur, (Borio and Drehmann, 2009).

Asset Quality; the composition of a bank shows the concentration of loans and advances in total assets. The high concentration of loans and advances indicates vulnerability of assets to credit risk, especially since the portion of non-performing assets is significant, (Gilbert et al., 2009).

Management Soundness; Sound management is the most important pre-requisite for the strength and growth of any financial institution. Since indicators of Management quality are primarily specific to individual institution, (Baxter, 2008).

Earnings and Profitability; Strong earnings and profitability profile of a bank reflect its ability to support present and future operations. More specifically, this determines the capacity to absorb losses by building an adequate capital base, finance its expansion and pay adequate dividends to its shareholders, (Boot and Thakor, 2010).

Liquidity; Liquidity indicators measured as percentage of demand and time liabilities (excluding inter-bank items) of the banks. The financial performance of banks and other financial institutions has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies (Beltratti and Stultz, 2011).

Imad *et.al* (2011) added that, the concept of efficiency is treated as a relative measure, which reflects the deviations from maximum attainable output for a given level of input all aspects especially profitability, growth and liquidity. Banking sector reforms in India, strive to increase efficiency and profitability of the banking institutions, the existing banking institutions has to face the global competition including operational efficiency, profitability, productivity and credit efficiency. The profitability tells about banks financial strength with the same and other banking groups in the industry. The productivity parameter indicates the labor productivity of the employees of a bank. The credit efficiency parameter shows how the given credits are efficient and what will be the effect on solvency of the bank.

2.5.1 Profitability (EAT)

According to Imad *et.al* (2011) Profitability is the ability of an enterprise to earn profits. The bank management is vitally interested in profit as it is often used as performance measure. Measurement of profitability is the overall measurement of performance. Profit is also important to financial institutions, bankers and creditors. Moreover, even a layman also assesses the performance of a business enterprise by its ability to earn profit. Profitability performance can be made by computing and interpreting various profitability ratios.

2.5.2 Liquidity

Kiyota (2009) revealed that, by checking the fluctuations most probably in current assets, the researcher can take the estimate of liquidity performance. Liquidity for a bank means the ability to meet its financial obligations as they come due. Bank lending finances investments in relatively illiquid assets, but it funds its loans with mostly short term liabilities. Thus one of the main challenges to a bank is ensuring its own liquidity under all reasonable conditions.

According to Murinde (2009) Liquidity- The ability to fund all contractual obligations of the bank, notably lending and investment commitments and deposit withdrawals and liability maturates, in the normal course of business that is the ability to fund increases in assets and meet obligations as they come due. Liquidity Management- An on-going process to ensure that cash needs can be met at reasonable cost in order for a bank to maintain the required level of reserves to meet expected and contingent cash needs.

Njuguna (2008) observes that, Liquidity creation helps depositors and companies stay liquid, for companies especially when other forms of financing become difficult. Managing liquidity risk is to ensure the bank's own liquidity so that the bank can continue to serve its function. This acts as a balance between a bank's own liquidity and its role as a liquidity creator, especially in times of financial distress or crisis.

Banks differ widely in how they manage liquidity. A small bank derives its funds primarily from customer deposits, normally a fairly stable source in the aggregate. Its assets are mostly loans to small firms and households, and it usually has more deposits than it can find creditworthy borrowers for. Excess funds are typically invested in assets that will provide it with liquidity such as Fed funds loaned and U.S. government securities. The holding of assets that can readily be turned into cash when needed, is known as *asset management banking*, (Nyaoma, 2009).

In contrast, Rossouw (2009) indicated that, large banks generally lack sufficient deposits to fund their main business-dealing with large companies, governments, other financial institutions, and wealthy individuals. Most borrow the funds they need from other major lenders in the form of short term liabilities which must be continually rolled over. This is known as *liability management*, a much riskier method than asset management. A small bank will lose potential income if gets its asset management wrong. A large bank that gets its liability management wrong may fail.

Rossouw (2009) asserted that, the key to liability management is *always* being able to borrow. Therefore a bank's most vital asset is its creditworthiness. If there is any doubt about its credit, lenders can easily switch to another bank. In recent years, large banks have been making increasing use of asset management in order to enhance liquidity, holding a larger part of their assets as securities as well as securitizing their loans to recycle borrowed funds.

Liquidity Coverage Ratio: Liquidity Coverage Ratio (LCR) seeks to promote short-term ability of a bank to have sufficient liquid assets to survive a period of liquidity stress. The LCR

measures the value of unencumbered high quality liquid assets against the expected net cash outflows over the next 30 calendar days, (Scott and Arias, 2011).

Net Stable Funding Ratio: The Net Stable Funding Ratio (NSFR) standard tries to promote incentives for banks to fund their activities with more stable sources of long-term funds. NSFR is defined as the amount of available stable funding to the amount of required stable funding, which must be greater than 100 per cent. "Stable funding" is defined as the equity and debt financing available over a one-year time horizon under conditions of extended stress, (Basel Committee on Banking Supervision, 2009).

2.5.3 Loan Portfolio Growth

There are several ways of measuring performance and one of them is the "SCALE" performance measure (OECD, 2009). This measure calculates self-sufficiency ratio, capital adequacy, asset quality, liquidity and earnings quality. The asset quality ratios that look at delinquency rate, loan loss rate and loan ageing report are relevant for measuring loan portfolio performance. Loan portfolio performance depends on the effect of the loan on the beneficiaries business and the repayment of the principle. Commercial banks have been extending loans to deficit units in Uganda's economy. However, as observed by the Governor, Bank of Uganda (Beltratti and Stultz, 2011), banks have been facing problems due to poor loan portfolios and have been stuck with high levels of non-performing assets, which affects their performance.

According to Bessis (2010) LPM involves evaluating the steps bank management takes to identify and control risk throughout the credit process. The assessment should focus on what management does to identify issues before they become problems. Specific measurable goals for the portfolio are established by loan portfolio objectives. They are an outgrowth of the credit culture and risk profile. The board of directors must ensure that loans are made with the following three basic objectives in mind to: grant loans on a sound and collectible basis, invest the bank's funds profitably for the benefit of shareholders and the protection of depositors and serve the legitimate credit of their communities. The level of interest risk attributed to the bank's lending activities depends on the composition of its loan portfolio and the degree to which the

terms of its loans (e.g., maturity, rate structure, and embedded options) expose the bank's revenue stream to changes in rates.

Boot and Thakor (2010) note that Loan portfolio performance, on the other hand, is the rate of profitability or rate of return of an investment in various loan products thus broadly, it looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments, security pledged against the borrowed funds, rate of arrears recovery and the number of loan products on the chain. The loan products may comprise of; Salary loans, Group guaranteed loans, Individual loans and corporate loan. Since one of the main tasks of commercial banks is to offer loans and their main source of risk is credit risk, that is, the uncertainty associated with borrowers' repayment of these loans, if the risk is not managed it may lead to increase of Non-Performing Loans (NPLs) defined as loans unpaid for ninety days or more from the due date.

2.6 Loan Policy

Loan Policy/Credit Management Policy; this refers to the organization's mode of analyzing credit sales requests, and its criteria for accepting or rejecting applications, debt collection period, credit standards. Luy (2010) revealed that a credit policy is a set of guidelines, objectives, standards and parameters to guide loan officers in managing the loan portfolio with a fundamental objective of making profits with minimum risk. Therefore a good credit policy is one that involves effective credit initiation, analysis, monitoring and evaluation. It involves procedures established to provide management with reasonable assurance that credit system is functioning as it should. Credit management can also be defined as the process for controlling and collecting payments from your customers. A good credit management system will help reduce exposure to bad debts and improve an institution's cash flow.

According to Bogess (2009) Credit policy is an institution's methods of analyzing credit and sets decision criteria for accepting and rejecting applications. Financial institutions may follow two credit policies to choose from; they may follow either a stringent policy or a lenient credit policy. With lenient credit policy, products or services are sold to customers at very liberal terms and standards in that, a longer period is given to those customers whose credit worthiness is not fully

known or whose financial position is doubtful. Under this policy, the discount rate is very high however the policy may be undesirable because the firm may not attain its benefits at the least possible costs and hence a danger of high costs especially of recovery.

However Beltratti and Stultz (2011) state that a stringent credit policy gives credit on a higher selective basis only to those customers whose credit worthiness has been ascertained and who are financially stronger. This can be important in that low costs are involved. The only way the firm can increase the recovery rate of loan is by altering its credit policy. The policy is based in controllable variables such as credit standards and credit terms.

Needham (2005) asserts that a loan policy encompasses borrowing terms that refer to the number of days it takes for debtors to pay back their debts to their credit institution as a component of credit management. He suggests that an institution can improve its liquidity by reducing on the debt collection period. Customers who pay late are receiving free finance for their activities. Loan policy, therefore was started to harmonize the borrowing-lending relationship, and comes in to clarify the terms under which credit is extended to customers. Pandey (2001) argues that there is need to develop cost effective measures for identifying credit, customer monitoring, status of the customers, revenue collection procedures and overdue debts. Loan policy includes: credit standards, credit terms, credit worthiness of a customer, collection procedures. Loans are offered, accounts receivables are created and are expected to be collected in future.

2.7 Government Policy

Chari and Kehoe (2010) note that Government Risk Management Framework is a reference document prepared by the Ministry of Finance, in collaboration with the Central Bank that provides information on the risk management framework within which the government's liquid financial assets and marketable debt are managed. The framework is considered to be dynamic because it evolves over time to incorporate developments in tools and practices in the area of treasury risk management, liquidity, legal, and operational risks.

Coeurdacier & Winant (2011) lament that, Government funds management encompasses a wide range of activities related to the issuance of debt and the management of liquid financial assets. The government manages its activities according to a set of key objectives and principles that include; The Central Bank Rate (CBR) prudence cost-effectiveness and leading practices.

According to Gertler & Kiyotaki (2010) the major principles of the government's risk management framework are listed below; Independence: Risk monitoring and oversight, supported by analytic capacity and a governance framework, are independent of funds management operations. Risk culture: The Ministry of Finance and the central Bank strive to create a culture where risk management is highly valued, considered an integral part of all Management activities, and viewed as the responsibility of all staff.

2.8 Literature Review Summary

Though many researchers had provided information on risk management and financial performance, the information provided was too general. Based on the above literature, it is evident that an institution's risk management policy has a significant influence on financial performance. Greenberg (2009) states that, good risk management is not only a defensive mechanism, but also an offensive weapon for performance quality of a business. A stringent risk management policy results in to minimal credit but the loss in revenue may be much greater than saved. On the other hand, a liberal risk management policy maximizes revenue but requires an institution to be more aggressive when clients do not pay on time so as to reduce bad debts (losses/defaults). Further still, hardly there is no literature about; the impact of risk identification on financial performance, the relationship of risk analysis, mitigation and financial performance and the relationship between risk monitoring and financial performance of either African or Ugandan Banks. Therefore, this instigated the research to conduct further research to establish how risk management contributes to efficient financial performance with specific reference to Ecobank (U) Ltd.

CHAPTER THREE METHODOLOGY

3.0 Introduction

This chapter describes ways in which relevant information regarding the relationship between risk management and financial performance was gathered. This chapter therefore covers research design, study area, study population, Sampling Technique and sampling selection, Data Collection Instruments, Research procedure, Data Quality Control, Data Presentation, Analysis and Limitations of the study.

3.1 Research Design

The researcher used a case study design which focused on a single organization. The case study approach is applicable because only banking officers within Ecobank were selected for the study, in order to place more emphasis on a full and in depth contextual analysis of fewer events and their interrelationship. The design involved intensive study geared towards a thorough understanding of Ecobank (U) Limited- Head office, (Cooper & Schindler, 2001). This involved collecting respondent's views, attitudes and opinions about risk management and financial performance at the bank. Both qualitative and quantitative approaches were applied. The study used structured questionnaires having both open-ended and closed ended questions to obtain quantitative data. While qualitative data was obtained using interview guide to achieve the desired results.

3.2 Area of the Study

The study was conducted from Ecobank (U) Limited, head office branch located along Plot 4, Parliamentary Avenue, within Kampala Capital City Authority. The bank was chosen because it was ranked the 17th out of declining performing commercial banks in Uganda by December 2013.

3.3 Population of the Study

The target population was 75 staff of Ecobank U) Limited consisting of 10 members of Management (managers, heads of sections) and 65 other staff members (tellers, credit officers, accounts assistants, accountant, and auditors) of the Bank.

3.4 Sampling Technique and Sampling Selection

3.4.1 Sample Size

From the population of 75 respondents, a sample of sixty six (66) respondents was chosen from the bank using Krejcie & Morgan (1970) as cited in Amin (2005), indicated in the table below;

Table 3.1: Showing the Sample size of Respondents

Category of Respondents	Population	Sample	Sample technique	Data Tool
Management	10	10	Purposive	Interview guide
Other Staff Members	65	56	Simple random sampling	Questionnaire forms
Total	75	66		

Source: Human Resource Information Systems of Ecobank (U Limited)

3.4.2 Sampling Technique

In order to obtain significant and better results from the entire survey population, simple random sampling was used to select members of the lower management at Ecobank (U) Limited. This technique helped to provide equal chances of participation of members from different departments.

Purposive sampling was used to select members of the Management and risk department who have professional knowledge and experience in handling banking risk and have sufficient information on financial performance and willingness to provide data.

3.5 Data Collection Instruments

The researcher used questionnaire forms and an interview guide to collect the desired data from Ecobank (U) Ltd. These tools gather detailed and cost effective data.

3.5.1 Questionnaire forms

The researcher used both open and closed ended questionnaires to gather information from the selected respondents. Questionnaires were used to give equal chances to respondents to give their own opinions, are easily administered and less costly, (Appendix: A).

3.5.2 Interview guide

The researcher used an interview guide to gather the necessary data on risk management and financial performance from Key informants at Ecobank (U) Limited. This was done through face to face interactions with the respondents. Predetermined unstructured questions were set in advance and in an orderly manner to allow systematic answering of questions (Amin, 2005). Interviewing helped to elicit detailed/in-depth information through probing, (Appendix: B).

3.6 Research Procedure

Having approved the study tools by both supervisors and Viva panel, the researcher obtained an introduction letter from Graduate School-Kyambogo University introducing herself to the management of Ecobank (U) Limited, who then introduced her to one staff member for guidance about obtaining information. The researcher organized a period of three weeks within which data was collected. The researcher then visited the area of study to meet the human resource manager of the bank, whom she later scheduled with appropriate interview days and time. The research begun by collecting data from respondents depending on the schedule and after collecting data, the researcher classified, recorded, analyzed and compiled the final report.

3.7 Data Quality Control

Validity and Reliability of data of data collection instruments

Validity and Reliability of the instruments was determined using the Cronbach Alpha Value and the Content Validity Index (CVI). Content validity refers to the degree to which the instruments cover the content that it is supposed to measure, (Yaghmaie, 2003).

$$\text{CVI} = \frac{\text{Agreed Items}}{\text{Total number of items}} = \frac{39}{44} = 0.886$$

If the overall content validity Index of the instrument is equal 0.886 which is above the average acceptable index of 0.7 or above for the instrument to be accepted as valid (Amin, 2005).

Table 3.2: Cronbach’s Alpha coefficients for the variables under study

Variables	Anchor	Cronbach Alpha Coefficient	Content Validity Index
Risk management	5Point	.654	.886
Financial performance	5point	.779	.733

Source: Primary data

Table 3.2 above shows that both the Cronbach Alpha and the Content Validity Index were above 0.500, meaning that the research instruments used were both valid, reliable and therefore were fit to use to collect data on the study variables so as to address the research questions.

To ensure reliability of quantitative data, the Cronbach’s Alpha Reliability Coefficient for Likert-Type Scales test was performed. In statistics, Cronbach’s alpha is a coefficient of reliability. It is commonly used as a measure of the internal consistency or reliability of a psychometric test score for a sample of examinees. According to Sekaran (2003) some professionals as a rule of thumb, require a reliability of 0.70 or higher (obtained on a substantial sample) before they use an instrument. Upon performing the test, the results that were above 0.7 were considered reliable.

3.8 Data Analysis and Presentation

3.8.1 Quantitative Data Analysis

Data collected from the field was processed, coded and entered in a Special Package for Social Sciences (SPSS), where frequency tables were extracted for analysis. Pearson correlation coefficient and regression analysis were used to determine the extent to which risk management affects financial performance. Inferential statistics were used to answer the research questions. Tables, Trend Line, Graphs and charts with relevant percentages, means, standard deviation and variance provided a quick snap shot at the current situation of the bank by presenting the structures in the assets, liabilities and incomes.

3.8.2 Qualitative Data Analysis

Data was categorized under different themes and sub-themes using critical judgmental approach. This kind of data was interpreted by explanations and substantiated using open responses from the field, (Mugenda and Mugenda (2003)). While analyzing qualitative data, conclusions were made under different themes and inter-related to ascertain the relationship between risk management and financial performance.

3.9 Limitations of the Study

Measurement tools were adopted from previous studies and therefore any limitations that were embedded in them would equally affect the study however this was controlled by comparing opinions of the different authors hence finding some of the views common.

The study used questionnaires for data collection and this had weaknesses of limiting the amount of data collected however this was supplemented by the interview guide which gave respondents chance to share their opinions in relation to the objectives of the study.

Some respondents were hesitant to provide all the required information, because of fear that it would be exposed it to competitors. However, time was taken with the respondents to explain to them that the study was basically for academic purposes.

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATION AND ANALYSIS OF RESULTS

4.0 Introduction

This chapter explores data presentation, analysis and interpretation of results from primary and secondary data in bid to answer the research questions in chapter one. For each research question, data is descriptively, qualitatively and quantitatively presented; finally, interpretation of results followed.

4.1 Response Rate

The researcher distributed 66 questionnaire forms of which all were fully answered and returned. Unstructured interviews were also administered among 10 respondents. In relation to the sample size of 66 respondents, overall response rate was 100%. According to Mugenda and Mugenda (2003), a response rate above 70% is very good for the study.

4.2 Background Information of the Respondents

In order to find out about the demographic data of the respondents questions 1-5 were administered and the following was revealed.

4.2.1 Gender Distribution of the respondents

The study was gender sensitive as illustrated below;

Table 4.1: Gender Distribution

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	26	39.4	39.4	39.4
Female	40	60.6	60.6	100.0
Total	66	100.0	100.0	

Source: Primary data

From the above table, it is shown that 26 (39.4%) of the participants were males while 40(60.6%) were female respondents. The implication of table 4.1 results is that the study involved either sex which helped to obtain more objective data about risk management and financial performance.

Question 2 in the questionnaire was used to obtain data on this parameter; as presented in table below;

Table 4.2: Age distribution of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 20 -30	13	19.7	19.7	19.7
31-40	25	37.9	37.9	57.6
41-50	19	28.8	28.8	86.4
50 & above	9	13.6	13.6	100.0
Total	66	100.0	100.0	

Source: Primary data

Table 4.2 majority of the respondents 25 (37.9%) were aged between 31-40years because Ecobank had more of the middle age adults, experienced and knowledgeable to handle risk related issues to influence financial performance. 19 (28.8 percent) were aged between 41-50years, 13(19.5 percent) were of the age bracket between 20 to 30 while 9 (13.6 percent) of the respondents were aged 50years and above. On analysis of the above finding, Ecobank employed experienced staff mostly aged between 31 and 40 years, the most risk adverse age group to deliver desirable output.

4.2.3 Education Level

Question 3 in the questionnaire was used to elicit information on this variable; table 4.4 as demonstrates the finding below;

Table 4.3: showing the Education Level of the employees at Ecobank

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Certificate	15	22.7	22.7	22.7
Diploma	19	28.8	28.8	51.5
Degree	29	43.9	43.9	95.5
Master Degree	2	3.0	3.0	98.5
PHD	1	1.5	1.5	100.0
Total	66	100.0	100.0	

Source: Primary Data

Table 4.3 above shows that the qualifications of Ecobank employees as; 15(22.7%) had certificates, 19 (28.8%) were diploma holders, 29 (43.9%) had degrees, 2(3%) held Masters Qualifications, while 1(1.5%) held PHD qualification. This implies that most of the company's

employees were informed and therefore clearly understood the variables under investigation. This further meant that staff had technical expertise to perform their duties diligently.

4.2.4 Length of Service at Ecobank

Data on this parameter was obtained through question 4 in the questionnaire; and below is their feedback.

Table 4.4: Length of Service at Ecobank

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-5 years	23	34.8	34.8	34.8
6 -10years	31	47.0	47.0	81.8
11-15 years	9	13.6	13.6	95.5
16+ above	3	4.5	4.5	100.0
Total	66	100.0	100.0	

Source: Primary data

Table 4.4 above illustrates that 34.8 percent of employees had served for the period between 1-5 years, 47 percent had worked for 6 to 10 years, 13.6 percent had worked for 11 to 15 years and 4.5 percent had served for a period of over 16 years. This indicates that most of the employees had served for between 6 to 10 years and were therefore deemed to have sufficient data about the Ecobank financial policies, systems, processes and procedures.

4.2.4 Positions/Responsibility Held

Question 5 in the questionnaire was used to obtain data on this parameter; Table 4.5 below shows the results;

Table 4.5: Positions/Responsibility held

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Management Team	10	15.2	15.2	15.2
Credit Manager	22	33.3	33.3	48.5
Risk Analyst	7	10.6	10.6	59.1
Accountant	4	6.1	6.1	65.2
Marketing Staff	23	34.8	34.8	100.0
Total	66	100.0	100.0	

Source: Primary Data

Results in Table 4.5 above indicates that 15.2% of the respondents held managerial/supervisory roles, 33.3% were credit managers in charge of enforcing credit products, 10.6% were risk

analysts, 6.1% were accountants in charge of financial statements while 23% were marketing staff. The implication of table 4.5 findings is that Ecobank had lower, middle and top management staff which helped to provide a basis for reliability of data as all categories of respondents who participated in the study worked together in the risk management department to see to it that Ecobank performance is improved.

4.3 Risk Identification and financial Performance of Ecobank (U) Limited

The first objective of the study was to examine the relationship between Risk Identification and financial Performance of Ecobank (U) Limited. To elicit data about the objective, the researcher administered research tools whose findings were presented under section 4.3 as follows;

Table 4. 6: Risk Identification and financial Performance of Ecobank (U) Limited

The Influence of Risk Identification(RI)	N	Minimum	Maximum	Mean	Variance	Standard Deviation
Ecobank has Risk registers and risk reports	66	1	4	1.88	.662	.814
Audit reports help Ecobank forecast its liquidity	66	1	5	2.62	2.147	1.465
Ecobank reviews Internal and external kinds of credit risks	66	1	5	2.79	2.047	1.431
Staff at Ecobank vest in risk planning and management activities.	66	1	5	3.11	2.404	1.550
Ecobank scans the environment to identify new and emerging risks.	66	1	4	2.33	1.764	1.328
Surveys/Questionnaires help Ecobank to prevent delays in identifying risk.	66	1	5	1.92	1.486	1.219
Business Impact Analysis (BIA) reveals the bank's risk resources.	66	1	5	3.62	1.962	1.401
RI exposes increasing chance of losses and their severity.	66	1	5	2.08	1.702	1.305
SWOT analysis ensures effective risk management.	66	1	5	3.52	1.792	1.339
With RI, Ecobank easily meets unexpected demands.	66	1	4	2.56	2.215	1.488
RI at Ecobank has helped to tighten lending and increased loan recovery	66	1	5	3.08	2.194	1.481

Source: Primary data

Table 4.6 above illustrates that, Ecobank has Risk registers and risk reports, (with mean=1.88, $\delta = .662$). This implies that, Ecobank has Risk registers and risk reports to assist it identify risks, source, cause, occurrence, when, where and likely consequences to boost Financial performance.

Respondents supported the view that, Audit reports help Ecobank forecast its liquidity (with mean=2.62, $\delta = 1.465$). Audit reports help Ecobank forecast its liquidity risks to maintain adequate cash flows for better financial performance.

The respondents supported the view that, Ecobank reviews Internal and external kinds of credit risks (with mean=2.79, $\delta = 1.431$). On analysis of the findings, Internal and external reviews aid identify the kinds of credit risks most likely to distress financial performance.

Respondents supported the view that, (with mean=3.11, $\delta = 1.55$) staff at Ecobank vest in risk planning and management activities. On analysis of table 4.6 findings, Stake holder analysis allows staff to vest in risk planning and management activities for effective financial performance.

The study result in Table 4.6 above shows that Ecobank scans the environment to identify new and emerging risks, (with mean=2.33., $\delta = 1.328$). This means that, working groups scan the environment from time to time to identify new and emerging risks that lower financial performance.

The respondents supported the view that, Surveys/Questionnaires help Ecobank to prevent delay in identifying risk (with mean=1.92, $\delta = 1.21$).

The respondents supported the view that, (with mean=3.62, $\delta = 1.401$) Business Impact Analysis (BIA) reveals the bank's risk resources. On analysis of table 4.6 findings, Business Impact Analysis (BIA) determines the possible risks facing the resources for improved financial decision making.

Table 4.6 above illustrates that RI exposes increasing chance of losses and their severity (with mean=2.08, $\delta = 1.305$). On analysis of table 4.6 findings, Ecobank RI exposes circumstances that increase chance of losses and their severity to allow financial stability.

Respondents sustained the view that, SWOT analysis ensures effective risk management (with mean=3.52, $\delta = 1.33$). This means that SWOT Scenario analysis depicts exposures like physical resources, human resources and financial resources performance.

Table 4.6 indicate that, the respondents concurred that With RI; Ecobank easily meets unexpected demands (with mean=2.59, $\delta = 1.488$). This means that RI at Ecobank easily liquidates some of its assets to meet unexpected demands for funds to yield portfolio growth.

The study revealed that RI at Ecobank has helped to tighten lending and increased loan recovery. The implication of the above finding is that, (with mean=3.08, $\delta = 1.481$) RI at Ecobank has helped to tighten lending processes and increased and recovery activities to improve the funding structure. RI at Ecobank has improved loan quality and the decline of non-performing loans for superior financial performance.

Table 4. 7: Relationship between risk identification and financial performance

Correlations

		Risk identification	Financial performance
Risk identification	Pearson Correlation	1	.846(**)
	Sig. (2-tailed)		.000
	N	66	66
Financial performance	Pearson Correlation	.846(**)	1
	Sig. (2-tailed)	.000	
	N	66	66

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

Since the Pearson correlation coefficient 0.846 is significant at 0.000 being less than 0.01(alpha level), therefore, there is a strong positive relation between risk identification and financial performance at Ecobank.

Interview results further revealed that Risk identification was done by risk management department which implemented policies approved by the board of directors. It was also revealed that, the Board provides written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivatives and non- derivative financial instruments.

One of the interviewees; responded that, Ecobank took on exposures to credit risk, which caused a financial loss to the Bank by failing to pay amounts in full when due. Credit risk such as loan commitments and guarantees are the most important risk for the bank’s business: management therefore carefully managed the exposures to credit risk of a portfolio of assets that entailed further estimations as to the likelihood of defaults occurring, the associated loss ratios and of default.

4.4 Risk Analysis, Mitigation and financial performance of Ecobank

In bid to establish, the results to the second objective of the study which was to examine the effect of Risk Analysis and Mitigation of Ecobank on financial performance of Ecobank (U) Limited; respondents indicated the extent to which they strongly agree (5), agree(4), disagree(3), strongly disagree (2) and not sure (1) as presented in the table below;

Table 4. 8: Relationship between Risk Analysis, Mitigation and financial performance

The effect of Risk Analysis and Mitigation	N	Minimum	Maximum	Mean	Variance	Standard Deviation
Ecobank assesses the impact of exposure to promote timely business development	66	1	5	3.70	2.276	1.509
Estimating risk significance improves financial management and promotes business growth	66	1	5	2.65	2.600	1.612
Ecobank assesses the frequency of occurrence manage risks, coordinate activities and improve financial growth	66	1	5	2.42	2.248	1.499
With risk analysis, the ratio of donor equity to total equity always declines annually	66	1	5	4.26	1.579	1.256
Risk analysis at Ecobank reduces costs and increases Capital Adequacy to overcome poor financial performance	66	1	5	2.85	2.961	1.721
Assessing the significance of inflation risk helps to control customer Loans for better financial performance	66	1	5	2.29	2.331	1.527

Analyzing market risks abet to maintain risk at reasonable assurance and cost-benefit to increase revenue	66	1	5	4.09	2.115	1.454
Risk analysis helps Ecobank to increase the operating accounts balances	66	1	5	2.77	2.548	1.596
Risk analysis has helped Ecobank adopt more aggressive strategies for realizing loan growth and better asset ratio	66	1	5	3.42	2.125	1.458
Responsible team continually monitors effectiveness of risk levels for better financial performance	66	1	5	3.55	2.129	1.459
Risk analysis has accelerated growth of Total deposits	66	1	5	2.83	2.664	1.632
Risk analysis has attracted growth in the bank's core capital adequacy ratio	66	1	5	2.68	2.682	1.638
Risk analysis has helped Ecobank to reduce uncertainty and liquidity risk associated with the deposits/credits	66	1	5	2.45	1.636	1.279

Source: Primary data

From table 4.8 above, respondents supported the view that, Ecobank assesses impact of exposure to promote timely business development (with mean=3.7, $\delta = 1.509$). This means that assessing the potential impact of exposure assists to promote timely business development and financial performance.

Findings show that estimating risk significance improves financial management and promotes business growth (with mean=2.65, $\delta = 1.612$). This means that estimating risk significantly improves financial management and promotes business growth.

Results in Table 4.8 above shows that Ecobank assesses the frequency of occurrence manage risks, coordinate activities and improve financial growth (with mean=2.42, $\delta = 1.509$). This implies that Ecobank assessed the frequency of occurrence which helped the Ecobank to know how to manage risks, coordinate activities and improve financial growth.

The respondents accepted that with risk analysis the ratio of donor equity to total equity always declines annually (with mean = 4.26, $\delta = 1.256$). With risk analysis the ratio of donor equity to total equity always declines annually. On analysis of table 4.8 findings, with risk analysis, the ratio of donor equity to total equity always declines annually were paid.

The findings above show that Risk analysis at Ecobank reduces costs and increase Capital Adequacy to overcome poor financial performance (with mean=2.85, $\delta = 1.721$). This meant

that Risk analysis at Ecobank reduces costs and increases Capital Adequacy to overcome poor financial performance.

Table 4.8 above shows stated that assessing the significance of inflation risk helps to control customer Loans for better financial performance (with mean=2.29, $\delta = 1.527$). This meant that Risk with little significance and low probability of occurrence reduces costs and increase Capital Adequacy to overcome poor financial performance. On analysis of the findings, on average Assessing the significance of inflation risk helps to control customer Loans for better financial performance in Ecobank.

Table 4.8 above shows stated analyzing market risks abet to maintain risk at reasonable assurance and cost-benefit to increase revenue (with mean=4.09, $\delta = 1.454$). On analysis of findings, analyzing market risks abet to maintain risk at reasonable assurance and cost-benefit to increase revenue.

Table 4.8 above shows that Risk analysis helps Ecobank to increase the operating accounts balances (with mean=2.77, $\delta = 1.596$).

Table 4.8 above shows stated that, Risk analysis has helped Ecobank adopt more aggressive strategies for realizing loan growth and better asset ratio (with mean=3.42, $\delta = 1.458$). On analysis of table 4.8 findings, Risk analysis has helped Ecobank adopt more aggressive strategies for realizing loan growth and better asset ratio.

From the above table it is illustrated that, that Responsible team continually monitors effectiveness of risk levels for better financial performance (with mean=3.42, $\delta = 1.458$). The implication of the above finding is that, Responsible team continually monitors effectiveness of risk levels for better financial performance.

Table 4.8 shows that, respondents accepted that Risk analysis has accelerated growth of Total deposits (with mean=3.55, $\delta = 1.459$). This means that, Risk analysis has accelerated growth of Total deposits.

Table 4.8 shows that, accepted with the view that Risk analysis attracted growth in the bank's core capital adequacy ratio (with mean=2.68, $\delta = 1.638$). The implication of the above finding is that, Ecobank experience inadequate capital problems.

The study indicated in Table 4.8 that, respondents concurred that Risk analysis has helped Ecobank to reduce uncertainty and liquidity risk associated with the deposits/credits enhance the review financial transaction (with mean=2.45, $\delta = 1.279$). This means that the institutions were able to Risk analysis has facilitated lower interest rates, lower default and accelerated growth loan portfolios.

Interview results revealed that, Ecobank activities were exposed to a variety of financial risks; market risk, (Currency risk, fair value interest risk, cash flow interest rate risk, and price risk), credit risk and liquidity risk. These activities involved analysis, evaluation, acceptance and management of some degree of risk or combination of risks. One of the interviewees lamented, *"Taking risk is core to the bank's business and Ecobank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance"*.

Ecobank analyzed risks by structuring the levels of credit risks. This was undertaken by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrower, or groups of borrowers, and to industry segments. Such risks were monitored on a revolving basis and subject to annual or more frequent review.

The information obtained from Data viewed from Ecobank credit risk management policy indicated that the bank incorporates various elements as part of a cohesive liquidity management process. These included; short-term and long term cash flow management, maintaining structurally sound balance sheet, foreign currency liquidity management and maintaining adequate liquidity contingency plan and Market Risk.

Table 4. 9: Relationship between Risk Analysis and Mitigation and Financial Performance

Correlations

		Risk Analysis and Mitigation	Financial Performance
Risk Analysis and Mitigation	Pearson Correlation	1	.303*
	Sig. (2-tailed)		.035
	N	66	66
Financial Performance	Pearson Correlation	.303*	1
	Sig. (2-tailed)	.035	
	N	66	66

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

From Table 4.9, there is Relationship between risk analysis, mitigation and financial performance ($r=.0.303$; $p>0.035$, <0.05). The study results therefore show that risk analysis and mitigation have a positive effect on Financial Performance. This is explained by the positive correlation co-efficient between the two variables ($r = 0.303$). Low levels of risk analysis and mitigation make Financial Performance difficult for the Ecobank.

Interview with one risk controller revealed there is a need to streamline risk analysis and mitigation to improve Financial Performance at Ecobank in respect to other commercial banks.

The results suggest that for any institution to improve her performance, it should make sure that it's risk analysis and mitigation should be understandable.

4.5 The Relationship between risk monitoring and financial performance

In bid to elicit data about the effect of risk monitoring on financial performance of Ecobank (U) Limited as the third objective of the study, the researcher administered research tools whose responses are as follows;

Table 4. 10: The effect of risk monitoring on financial performance of Ecobank (U) Limited

Risk Monitoring and financial performance	N	Minimum	maximum	Mean	Variance	Standard Deviation
Ecobank monitors risks to ensure no alteration in financial priorities	66	1	5	2.79	2.047	1.431
Risk monitoring allows timely reports on the financial condition	66	1	5	3.11	2.404	1.550
Risk monitoring permits clear understanding of the financial position and risk exposures.	66	1	5	2.33	1.764	1.328
Risk monitoring practices and reports address all of its material risks	66	1	5	1.92	1.486	1.219
With Risk monitoring, procedures are tested for reliability on an on-going basis to improve investment potential	66	1	5	3.62	1.962	1.401
Risk monitoring ensures compliance with established limits, goals, or objectives.	66	1	5	2.08	1.702	1.305
Decision-makers are able to identify any adverse trends and to evaluate adequately the level of risk faced	66	1	5	2.85	2.961	1.721
Ecobank monitors the credit contractual repayment schedules for an improvement in its financial position	66	1	5	2.29	2.331	1.527
Risk monitoring lowers credit risk of the Group's portfolio and risk versus financial return conditions	66	1	5	4.09	2.115	1.454
Monitoring applicant's financial position, uses of funds, resources allows repayment & boosts financial performance	66	1	5	2.77	2.548	1.596
Monitoring compliance with the established policies, lowers liquidity risk and high financial performance	66	1	5	3.42	2.125	1.458
Monitoring of actual losses incurred boosts FP	66	1	5	3.55	2.129	1.459
Risk monitoring reduces risks for effective financial performance	66	1	5	2.79	2.047	1.431
Risk monitoring can assist in lowering the risk burden	66	1	5	3.11	2.404	1.550

Source: Primary data

Table above shows that Ecobank monitors risks to ensure no alteration in financial priorities (with mean=2.79, $\delta = 1.431$). On analysis of table 4.5 findings, Ecobank monitors risks to ensure no alteration in financial priorities.

Table 4.10 above shows that Risk monitoring allows timely reports on the financial condition (with mean=3.11, $\delta = 1.550$). This means that Risk monitoring allows timely reports on the financial condition.

Table 4.10 above shows that Risk monitoring permits clear understanding of the financial position and risk exposures (with mean=2.33, $\delta = 1.328$). This means that lack of infrastructure, skills, resources, research, and technology as well as language and cultural barriers limits the bank from fully undertaking the necessary risk management controls.

Table 4.10 above that Risk monitoring practices and reports address all of its material risks (with mean=1.92, $\delta = 1.219$). This meant that Risk monitoring practices and reports address all of its material risks

From Table 4.10 above shows that with Risk monitoring, procedures are tested for reliability on an on-going basis to improve investment potential (with mean=3.62, $\delta = 1.401$). On analysis of this finding, with risk monitoring, procedures are tested for reliability on an on-going basis to improve investment potential.

Table 4.10 above shows stated Risk monitoring ensures compliance with established limits, goals, or objectives (with mean=2.08, $\delta = 1.401$). This means that Risk monitoring ensures compliance with established limits, goals, or objectives and, as appropriate, compare actual versus expected financial performance.

Table 4.10 reveals that the respondents stated decision-makers are able to identify any adverse trends and to evaluate adequately the level of risk faced (with mean=, 2.29 $\delta = 1.529$). The implication of the above finding is that Decision-makers are able to identify any adverse trends and to evaluate adequately the level of risk faced.

Findings in Table 4.10 illustrate that, Ecobank monitors the credit contractual repayment schedules for improved financial position (with mean=4.09, $\delta = 1.454$). The implication of the finding is that, Ecobank monitors the credit contractual repayment schedules for improved financial position.

Table 4.10 findings indicated that, Risk monitoring lowers credit risk of the Group's portfolio and risk versus financial return condition (mean=2.115, $\delta = 1.454$). On analysis of the findings, risk monitoring lowers credit risk of the Group's portfolio and risk versus financial return conditions.

Table 4.10 shows that, Monitoring applicant's financial position, uses of funds, resources allows repayment & boosts financial performance (with mean=2.77, $\delta = 1.596$). This means that monitoring applicant's financial position, uses of funds, resources for the repayment of obligations boosts financial performance.

Table 4.10 shows that, monitoring compliance with the established policies lowers liquidity risk and high financial performance (with mean=3.42, $\delta = 1.459$). The implication of the above finding is that, Monitoring compliance with the established policies, procedures and limits aid day-to-day low liquidity risk and high financial performance.

The study indicated in Table 4.10 that, Monitoring of actual losses incurred boosts financial performance enhance the review financial transaction. This means that monitoring of actual losses incurred, inadequate or failed internal processes, people and systems, or from external events (including legal risk); differ from the expected boosts financial performance.

From Table 4.10 results, that Risk monitoring reduces risks for effective financial performance (with mean=2.79, $\delta = 1.431$). The implication of the above finding is that, Risk monitoring reduces risks for effective financial performance. This implies that, Risk monitoring reduces risks for effective financial performance

The results as reflected from Table 4.10 confirms that, Risk monitoring can assist in lowering the risk burden (with mean=,3.11 $\delta = 1.550$).

Table 4. 11: Relationship between Risk Monitoring and Financial Performance of Ecobank (U) Limited

		Correlations	
		Risk Monitoring	Financial Performance
Risk Monitoring	Pearson Correlation	1	.052
	Sig. (2-tailed)		.730
	N	66	66
Financial Performance	Pearson Correlation	.052	1
	Sig. (2-tailed)	.730	
	N	66	66

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

From Table 4.11, there is an effect between Risk Monitoring and Financial Performance of Ecobank ($r=.052$; $p>0.73$, <0.05). The study results therefore show that the Risk Monitoring has a positive effect on Financial Performance though the effect is not significant. Since the Pearson correlation coefficient 0.52 is significant at 0.000 being less than 0.05(alpha level), there is a strong positive relation between risk monitoring and financial performance at Ecobank.

This explains that there is a positive correlation co-efficient between the two variables which is 0.052 which is explained by the Risk Monitoring which make Financial Performance difficult for the MFIs to reach their clients. That said there is a need to streamline the Risk Monitoring to improve Financial Performance at Ecobank (U) Limited.

The study noted that Ecobank: In fact, in an interview with one of the risk managers, he mentioned that.

“Our Risk Monitoring depends on the preferences and calculations made to suit the request of operating and market conditions”

The results suggest that for any financial institution to improve her performance, it should make sure that its Risk Monitoring is frequently conducted by experienced risk managers and controllers of the banking institution.

Interview results with management indicated that, Ecobank Risk management was adopted to reduce the potential of lowering the value of shareholders' wealth. Being risk averse enhances the stability of the Bank's earnings to ensure the reduced volatility of profits through risk management. More than 70 percent of a bank's balance sheet generally relates to credit risk and hence considered as the principal cause of potential losses and bank failures. Time and again, lack of diversification of credit risk has been the primary culprit for bank's failures.

Data obtained about the role of the risk management department encompassed responsibilities of monitoring the market risk situation on a regular basis, monitoring interest rates through daily, weekly and monthly reviews of the structure and pricing of assets and liabilities, checking the open foreign currency positions to ensure that they are kept within approved overnight and intraday price limits. Liquidity risk was monitored through the gap analysis and ensured that the deposit base was well diversified in line with the Credit Policy. The Market Risk Manager also constantly reviewed the market risk exposures with the view of ensuring they are within prudential limits at all times.

Table 4. 12: The Financial Performance of Ecobank (U) Limited

Financial Performance of Ecobank	N	Minimum	Maximum	Mean	Variance	Standard deviation
Ecobank has a solid financial base to sustain its operations	66	1	5	2.83	2.664	1.632
Ecobank incurs costs of maintaining the value of equity relative to inflation	66	1	5	3.14	1.873	1.369
We always strive to increase our income by increasing our portfolio yield	66	1	5	3.79	2.970	1.723
Ecobank reduces operational and financial costs through efficiency and productivity of lending	66	1	5	3.08	2.594	1.611
Ecobank strives to reduce loan loss write offs by managing portfolio quality	66	1	5	3.42	2.125	1.458
The default rate has been reducing annually	66	1	5	3.55	2.129	1.459
Ecobank's level of financial self-sufficiency has been increasing annually	66	1	5	4.00	2.123	1.457

Source: primary data

The results as reflected from Table 4.13 confirm that, Ecobank has a solid financial base to sustain its operations (with mean=2.83, $\delta = 1.632$). This implies that Ecobank does not have solid financial base to sustain its operations.

The results as reflected from Table 4.13 confirm that, Ecobank incurred costs of maintaining the value of equity relative to inflation (with mean=3.14, $\delta = 1.369$). This implies that equity reserves were so insignificant for the bank's survival.

The results as reflected from Table 4.13 confirm that the bank always strives to increase its income by increasing the portfolio yield. Ecobank made losses in the previous financial years which affected its performance (with mean=3.79, $\delta = 1.723$).

Interview with management provided that, even the other leading banks have suffered significant losses or a drop in profits, as the ripple effects of the economic slow-down continue to be felt. Financial reports released in the past few weeks show that three of the six largest banks, each with assets worth at least Shs 1 trillion, saw their profits drop by 20 per cent or more. Ecobank attributed the decline to a reduction in loans and advances, increase in expenses, and a rise in the number of debts it has written off. Ecobank Managing Director, said while releasing the company's results in May 2014, the financial year 2013/14, that the effects of the 2011 economic slump were haunting the banking sector.

The results as reflected from Table 4.13 confirms that, Ecobank reduces operational and financial costs through efficiency and productivity of lending (with mean=3.08, $\delta = 1.611$). The implication of the above finding is that, Ecobank experienced difficulties in managing operational costs.

Interview results indicated that bad debts are an almost permanent fixture on Ecobank's balance sheets. The difference this time is that the loans written off by the banks have massively increased, indicating poor economic recovery. Non-performing loans are a sum of borrowed money upon which the debtor has not made his or her scheduled payments. The executive director said that slow economic activity had contributed to more bad commercial loans. "The

level of non-performing loans has increased from 4.9 per cent in September last year to 6.9 per cent in December 2013. Therefore, to the commercial banks, quality-wise in terms of the loans they give out, there is a problem,” he said.

The results as reflected from Table 4.13 confirms that, Ecobank strives to reduce loan loss write offs by managing portfolio quality (with mean=3.42, $\delta = 1.458$).

Interview with management indicate that Ecobank registered a huge number of defaulters and took over property but could not sell most of it as the market slumped even further. Announcing the April monetary policy, central bank Governor Tumusiime Mutebile said he expected Ecobank to give out fewer loans as they scrutinize borrowers to avert effects of non-performing loans they have suffered.

The results as reflected from Table 4.13 confirms that the default rate has been reducing annually, concurred that the default rate has been reducing annually (with mean=3.55, $\delta = 1.459$). The implication of the above finding is that, the default rate declined but slowly with increase in the client base. This meant that Ecobank customers defaulted more often. This implies that, effective borrowing costs in such markets as well as interest rates charged are rather high, e.g. payday lending often exceeds 200 percent on an annualized basis to raise the default rate.

Results in Table 4.13 above confirm that Ecobank’s level of financial self-sufficiency has been decreasing annually; that (with mean= 2.176, $\delta = 1.457$). low financial self-sufficiency reduced the level at which clients create assets and even savings which reduce poverty by increasing income levels.

However, secondary data observations (The CEO magazine June 2014, pg.8 & 9) results with management indicated poor financial performance. They revealed that Ecobank experienced a net loss of 14billion and this compelled management to deduct Shs. 11,256 to cater for accumulated losses for the period from the directors’ dividend for the year 2009.

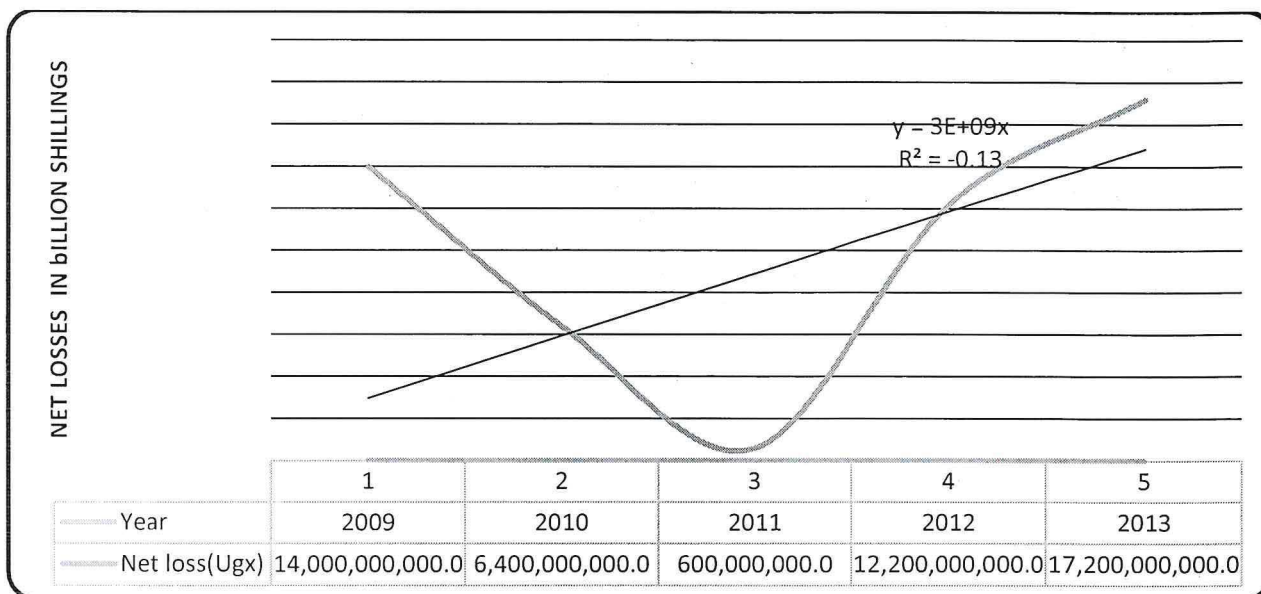


Figure 4. 1: Summary of the Financial Performance for the Period 2009 to 2013

Figure 4.1 above illustrates that between 2009 and 2011 Ecobank made losses at a declining rate whereas from 2011 to 2012 losses hiked severely till 2013 with the root mean square value of -0.13. The performance graph also reveals the model relationship as $Y = 3E + 0.9x$, this is the rate at which Ecobank makes losses per annum.

Further still in regard to financial performance, Ecobank's liquidity between 2012 and 2013 reduced from 82.4 billion to 81.60 billions leading to growth rate of -0.97%.

4.6 Regression analysis

Table 4.13: Summary of overall Regression Analysis

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	2.165	.712		3.042	.004
	Risk Identification	.257	.219	.194	1.178	.246
	Risk analysis & mitigation	-.107	.312	-.063	-.344	.733
	Risk Monitoring	.211	.191	.219	1.104	.276

a. Dependent Variable: Financial Performance

Table 4.12 above shows that with a unit change of the independent variables Risk management (Risk Identification, Risk analysis & mitigation and Risk Monitoring) results in 2.165 dependent variable (financial performance). This shows that the effect is significant and greatly affect the

dependent variable financial performance. This implies that commercial banks have to uphold Risk Identification, Risk analysis & mitigation and Risk Monitoring so that financial is improved.

The linear model implies that if Ecobank manage risks very well, financial performance could significantly improve.

Table 4.14: Overall model summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.326 ^a	.106	.043	.53927	.106	1.669	3	42	.188

a. Predictors: (Constant), Risk Identification, Risk analysis & mitigation and Risk Monitoring

The table 4.14 above represents the overall regression results between the independent and the dependent variables. The model summary reveals that correlation coefficient (R) using the predictors Table 4.15: is 0.326 and adjusted R square is .043.

This implies that only 4.3 % (0.043*100%) variation in Ecobank financial performance can be explained by the three factors Risk Identification, Risk analysis & mitigation and Risk Monitoring while the remaining of the variations of 95.7% can be explained by other factors such as the Bank’s objectives, credit staff abilities.

CHAPTER FIVE

DISCUSSION, SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter explores discussion of the major findings, a summary of the findings, conclusions, recommendation drawn there after based on previous chapter and answering the objectives of the study spelt out in chapter one.

5.1 Discussion of the Major findings

5.1.1 Risk Identification and Financial Performance of Ecobank (U) Limited.

Basing on chapter four results in table 4.6, Ecobank Uganda believed in having effective systems in place to enable it acquire adequate information on borrowers. This enables the bank to properly identify risks associated with individual borrowers and credit portfolio. This helped Ecobank to identify risks associated with the individual transactions from the onset. After an in-depth review of the borrowers and the actual transactions being proposed to identify the inherent risks, risk ratings developed internally by Ecobank are assigned to both the obligor and the facility being sought for. The key risks identified were; credit risk, market risks (which includes liquidity risk, interest rate risk and foreign exchange risk), operational risks which sometimes include legal risk, and more recently, strategic risk.

The study further revealed that Market risks were spotted by the Market Risk Manager and officers of the internal control department. The daily trading activities do not conform to approved strategies and resulting into risk exposures which exceed approved price limits and the overall risk tolerance level set by the board. The finding is in agreement with Basel Committee on Banking Supervision (2009), which stipulated that Risks that may arise from changes in market risk factors, may affect the value of trading and non-trading positions as well as income streams on non-trading portfolios are also monitored and identified by the responsible staff on a daily basis. Additionally, The Basel II operational risk framework, Ecobank Uganda Limited categorizes its operational risk into seven loss event categories based on their primary cause: internal fraud, external fraud, employment practices and workplace safety, dispute with clients,

damage to physical assets, business disruptions and systems failure, and execution, delivery and process.

Table 4.7 results revealed that there was a strong positive correlation between risk identification and financial performance (that is 0.846 being significant at 0.000 less than 0.01(alpha level). This helped Ecobank to identify Risk of permanent default. The finding is in agreement with Annual Report of Ecobank Uganda Ltd (2009) which indicated that a risk –based assessment eliminates the possible inherent risks. The bank had risk analysts in the business units to conduct risk identification to ensure that risk considerations are factored in the process right from the beginning. It also enabled the functions with diverse interests to work together at addressing any concerns surrounding the credit request so that a timely decision could be undertaken and a response given to customers without undue delays.

The use of the risk ratings system at Ecobank also assisted in the proper classification of borrowers and facilities in the bank's credit portfolio. The classification assists in measuring credit exposures across different borrower groups, product types, geographies, industry segments and other relevant risk factors using the same standards. The risks in the bank's credit portfolio are therefore identified as unhealthy portfolio structures (over-concentrations), and highlights deteriorating credit quality in certain classified groups. In addition to the regular assessments of business activities to identify potential inherent risks, risk indicators such as thefts, failed trades, errors in funds transfer or loan disbursements Ecobank immediately highlighted and brought to the attention of management in order to initiate steps to reduce the impact of potential losses. The above result is supported by Baxter (2008) who noted that, giving loans is a risky affair for bank sometimes and certain risks may also come when banks offer securities and other forms of investments. The risk of losses that results from insufficient receipts from expected debtors is a kind of risk that must be expected for a bank to keep substantial amount of capital to protect its solvency and to maintain its economic stability.

5.1.2 Risk Analysis, Mitigation and Financial Performance of Ecobank (U) Limited

Table 4.8 results revealed that Ecobank uses gap analysis to measure its exposure to interest rate risk where it compares the values of interest rate sensitive assets and interest rate sensitive liabilities that mature at various time periods in the future. The study also revealed that, in cases where some assets and liabilities did not have specific contractual maturity or re-pricing dates, Ecobank makes judgmental assumptions about their behavior. This enabled Ecobank to estimate the effect of interest rate changes (fluctuations) on its near-term reported earnings. This provided a straightforward approach for controlling hedging foreign exchange risks. The finding is in agreement with Owojori, and Adidu, (2011), who lamented that, definitive risk ratings usually inform who in the organization is responsible for dealing with the risk. However, this was a static nature of risk management in that it did not give Ecobank a complete picture of interest rate risk. By focusing on reported earnings in estimating rate sensitivity, this approach to evaluating interest rate risk tends to ignore the effect of mismatches among medium-or long-term positions.

According to table 4.9 findings, there existed a positive significant relationship at 1% in which risk analysis and mitigation affected financial performance by 85.4% while other factors contribute 14.6% at Ecobank. This further means that risk analysis and mitigation ultimately targeted the interest rate control and management in order to regulate the level of net interest margin normally determined by the relative yields and volumes of balance sheet items.

The finding is contrary to Acharya, et al (2011) who revealed that, the funding strategy on the net interest margins assumes that funding decisions in the future will be similar to the decisions that resulted in the bank's original re-pricing schedule. Further, gap analysis does not take into account variations in the characteristics of different positions within a time band because all positions are assumed to mature or re-price simultaneously. Ideally, a bank's interest rate risk management system should take into account the specific characteristics of each interest-sensitive position and capture in detail the range of potential movements.

The study also revealed that Ecobank Risk Analysis and Mitigation of Foreign currency risk was taken on whenever there were fluctuations in the prevailing foreign currency exchange rates, on

its financial positions and cash flows. The actual impacts of such mismatches were measured through the income statement as foreign exchange gains or losses. Ecobank's foreign exchange risk management was based on mismatch analysis which helped it to determine imbalances between maturing foreign assets and liabilities. These imbalances were then evaluated in the light of current and expected exchange rates, domestic and international market interest rates and acceptable risk return profiles. The result is synonymous to the World Economic Forum (2008), report which observed that Market Risk Management provides a comprehensive framework for measuring, monitoring and managing liquidity, interest rate, foreign exchange and equity as well as commodity price risk of a bank that needs to be closely integrated with the bank's business strategy.

5.1.3 Risk Monitoring and Financial Performance of Ecobank (U) Limited

The results using Pearson's correlation coefficient revealed that the relationship is significant at 1%. Having effective Risk monitoring strategies improved financial performance by 87.4%. The study further provided that Chief Finance Officer (CFO) of Ecobank had the responsibility of monitoring the market risk situation on a regular basis. He monitored interest rates through daily, weekly and monthly reviews of the structure and pricing of assets and liabilities. The CFO also checked the open foreign currency positions to ensure that they are kept within approved overnight and intraday price limits. The result is complementary to Ramcharan (2009), who argued that Banks monitor the credit risk standing of their customers by monitoring their fulfillment of contractual repayment schedules, their business performance, financial position, qualitative factors, and other indicators. Especially for customers to which they have major credit exposure and may have a major impact on management, monitoring is carried out more strictly and on a continuing basis improves access to capital and investment potential.

Ecobank monitored liquidity risk through the gap analysis and ensured that the deposit base is well diversified in line with the Credit Policy approved by management. The Market Risk Manager also constantly reviewed the market risk exposures with the view of ensuring they are within prudential limits at all times. At their monthly meetings, CFO also examined various reports, tracking major activities giving rise to market risk and also analyzed the impact of unlikely but not impossible events by means of scenario analysis to enable them gain a better

understanding of the risks that Ecobank faced under extreme conditions. The results corresponds to Scott and Arias (2011), who noted that when screening applications for credit, Group banks examine and gain a firm grasp of the applicant's financial position, uses of funds, resources for the repayment of obligations, and other related matters, and, then taking account of special risk characteristics or other issues, perform appropriate credit analyses.

On semi-annual and annual basis, Ecobank's internal control department undertook thorough and objective assessment of the entire risk management framework to ascertain assurance regarding its continuing appropriateness and adequacy in the light of current macroeconomic developments and financial sector industry practices. Market risk being monitored and controlled from different angles and levels, where Ecobank was assured of an effective system of ensuring that market risk is kept within acceptable limits. Similarly Torben (2009), argued that, to deal with concentrations of exposure to specific customers or groups of customers, in view of possible repercussions for the Resona Group's management, Group banks set credit limits, or credit ceilings, and adopt other measures to manage such circumstances.

The study also indicated that Risk Reporting facilitated by an elaborate information management system embedded in its IT platform, the management of Ecobank Uganda limited was provided with timely information on market risk exposures. Scheduled reports on the bank's position were also provided by the finance department to assist in decision making. Independent reviews of the bank's positions and procedures by the Audit and Compliance Unit to the board gave the board an objective view of the market risk situation. The result is supported by Ahmed (2009), who advocated that to effectively manage and monitor its net funding requirements; a bank should have the ability to calculate liquidity positions on an intraday basis, on a day-to-day basis for the shorter time horizons, and over a series of more distant time periods thereafter.

Due to the complex and diverse nature of operational risk, Ecobank's main strategy for managing risk, was to develop a strong operational risk culture amongst its entire staff and therefore had committed significant resources to it in the last two (2) years. Most of the efforts towards this had been in the form of sensitizing and training staff on how their daily work activities can contribute to operational risk and what they can do to avoid potential losses. The

bank has also invested in an operational risk management application (Oprisk Management System) developed for it by HSBC to assist in identifying lapses in every aspect of the bank's activities which can result in operational losses.

Ecobank's reward system was adjusted to include recognition for being operational risk conscious. The Board of Directors and the Managing Director of Ecobank Uganda Limited paid keen interest and were directly responsible for the management of operational risk in order to improve the Bank's financial position. The study further revealed that, they set the appropriate environment necessary for handling operational risk in the bank by approving the framework and strategies for managing it. The responsibility for executing the framework and implementing the strategy was however vested in all heads of units and departments since the sources of operational risks cuts across the entire operations of the bank.

Ecobank appointed the operational risk manager to assist in coordinating the effort of all the staff and management working within or managing operational business units of the bank. The Operational Risk Manager existed within the risk function to ensure that adequate knowledge, systems and resources were available to handle operational risks. Operational Risk Manager also participates in preparing, testing and reviewing the business continuity and disaster recovery plan of every business unit.

Through its risk monitoring, control self-assessments system enabled by its operational risk management application, Ecobank Uganda Limited was able to track internal loss data for monitoring and control purposes. Business units were thus able to monitor the key operational risk exposures and their underlying causes against the thresholds set by the Bank. The study also revealed that the Operational Risk Manager was also able to have access to real time data on the levels and trends of loss events and therefore helped in monitoring to ensure that they are within acceptable levels set by the board.

The study results also indicated that Ecobank analyzed the impact of unlikely, but not impossible events by means of scenario analysis, which enabled management to gain a better understanding of the risks that it faced under extreme conditions. A risk Regular monitoring activities ensured that deficiencies in the operational risk management policies, processes and procedures were quickly detected and corrected to reduce the incidence of loss events. Any indication of potential

loss triggered mitigation measures if the loss was beyond the bank's acceptable level. There were clear sanctions for flouting the processes and procedures established to ensure control over operations to ensure strict compliance. Ecobank's Internal Control Unit and its external auditors also provided independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the operational risk management framework.

Chapter four results further indicated that it was the responsibility of the Operational Risk Manager to periodically (quarterly) report, aggregate risk profile, risk control effectiveness and corrective actions taken during every period. Operational losses were often reported to management. The Internal Auditor of Ecobank submitted detailed reports of their investigations of operational loss events, including causes and remedial actions to be implemented to management. Further, still Ecobank Board required immediate consultations with the Risk Committee and Board of all instances of unauthorized deviations from any of the standards set out in the risk policy statement and the likely or actual breaches of thresholds agreed by the Risk Committee and the Board.

5.2 Summary of the major findings

The study aimed at investigating the risk management framework employed by Ecobank (U) limited to enable it achieve an appropriate balance between risk and financial performance. The framework was basically structured to handle credit risk, market risk and operational risk which the bank considered to be the major risks inherent in its business activities.

5.2.1 Risk identification and financial performance of Ecobank (U) Limited.

There was a strong positive correlation between risk identification and financial performance (that is 0.846 being significant at 0.000 less than 0.01(alpha level). The key risks identified were; credit risk, market risks (which includes liquidity risk, interest rate risk and foreign exchange risk), operational risks which sometimes include legal risk, and more recently, strategic risk.

Ecobank had a comprehensive Credit Policy Manual which had been reviewed over the years to reflect new developments in the banking industry (both local and international). This helped the bank to identify, monitor, analyze and mitigate risks regularly to reduce on the level of financial losses from Ushs.17.2billions to 9.2 billion between 2012 and 2013.

5.2.2 Risk Analysis, Mitigation and Financial Performance of Ecobank (U) Limited

There is a strong positive relation between risk identification and financial performance at Ecobank. Low risk identification increased borrowing and operational costs hence reducing liquidity levels and lowering financial performance. Ecobank. Ecobank Risk Analysis and Mitigation of Foreign currency risk was taken on whenever there were fluctuations in the prevailing foreign currency exchange rates, on its financial positions and cash flows. The actual impacts of such mismatches were measured through the income statement as foreign exchange gains or losses.

5.2.3 Risk Monitoring and Financial Performance of Ecobank (U) Limited

The results using Pearson's correlation coefficient revealed that there is Relationship between risk analysis, mitigation and financial performance ($r=0.303$; $p>0.035$, <0.05). The study results therefore show that risk analysis and mitigation have a positive effect on Financial Performance. This is explained by the positive correlation co-efficient between the two variables ($r = 0.303$). Low levels of risk analysis and mitigation make Financial Performance difficult for the Ecobank. Having effective Risk monitoring strategies improved financial performance. Chief Finance Officer (CFO) of Ecobank had the responsibility of monitoring the market risk situation on a regular basis. Ecobank monitored credit risk levels by monitoring fulfillment of contractual repayment schedules, client business performance and financial positions.

The study indicated a net loss of 14billion which compelled management to provide for accumulated losses in the financial statement amounting to UGX11, 256 Million to cater for the period from the director's dividend for the year 2009.

Table 5:14 Summary of the financial performance for the period 2009 to 2013

Year	2009	2010	2011	2012	2013
Net losses Ugx (billions)	14	6.4	0.6	12.2	17.2

Source: Adopted from the CEO Magazine, June 2014

Ecobank's liquidity between 2012 and 2013 reduced from 82.4 billion to 81.60 billions leading to growth rate of -0.97%, (CEO magazine, May. 2014).

5.3 Conclusions

5.3.1 The relationship between risk identification and financial performance of Ecobank (U) Limited

Pearson correlation coefficient 0.846 is significant at 0.000 being less than 0.01(alpha level), therefore, there is a strong positive relation between risk identification and financial performance at Ecobank. Low risk identification increased borrowing and operational costs hence reducing liquidity levels and lowering financial performance. The risks in the bank's credit portfolio were therefore identified as unhealthy portfolio structures (over-concentrations), and highlights deteriorating credit quality. Expanded credit exposure with significant concentration levels to few large corporate in the service sector of the economy creates some worry for the bank's credit risk

5.3.2 The relationship between risk analysis, mitigation and financial performance of Ecobank (U) Limited

There is Relationship between risk analysis, mitigation and financial performance ($r=0.303$; $p>0.035$, <0.05). The study results therefore show that risk analysis and mitigation have a positive effect on Financial Performance. This is explained by the positive correlation coefficient between the two variables ($r = 0.303$). Low levels of risk analysis and mitigation make Financial Performance difficult for the Ecobank. it can further be deduced that Ecobank had relatively good risk profiles as well as sound frameworks for managing risks inherent in their business activities, although it held the 17th position out of 26 banks within the industrial position of the financial industry in the financial year 2012/2013.

5.3.3 The relationship between risk monitoring and financial performance of Ecobank (U) Limited

There is an effect between Risk Monitoring and Financial Performance of Ecobank ($r=0.052$; $p>0.73$, <0.05). The study results therefore show that the Risk Monitoring has a positive effect on Financial Performance though the effect is not significant. Since the Pearson correlation coefficient 0.52 is significant at 0.000 being less than 0.05(alpha level), there is a strong positive relation between risk monitoring and financial performance at Ecobank.

This implies that only 4.3 % ($0.043 \times 100\%$) variation in Ecobank financial performance can be explained by the three factors Risk Identification, Risk analysis & mitigation and Risk Monitoring while the remaining of the variations of 95.7% can be explained by other factors such as the Bank's objectives, credit staff abilities. However, the loan quality improved as the level of non-performing loans in the loan portfolio declined with tightened lending processes and increased monitoring and recovery activities. The loan quality improved as the level of non-performing loans in the loan portfolio declined with tightened lending processes and increased monitoring and recovery activities. Ecobank's capacity to absorb credit losses was also improved with adequate collateral cover and allowance made for impairments.

5.4 Recommendations

Despite a fairly good risk management system put in place by Ecobank, to adequately manage the various types of risks it faced, a couple of recommendations can be suggested to strengthen its risk management systems and make it more competitive;

Ecobank should maintain a balance between simplicity and results to manage risks.

Management will therefore need a portfolio view of all the various risks and developing a strategy to manage them with the view of benefiting from diversification effects. Such an integrated approach can help senior management realize the relationships between various risk exposures as well as their multidimensional effect on the bank.

Ecobank's Risk Management Committee should be expanded to include the heads of other departments with some responsibilities for some risks such as IT, Operations, Internal Control the three business segments (Wholesale Banking, Retail Banking and Treasury). The expanded committee can be used to promote an integrated framework of policies, procedures and defined processes for bank-wide risk management with the view of ensuring accountability for decisions related to the management of risk.

Ecobank should also aim at developing aggregate measures for its risk exposure. The idea is to incorporate multiple types or sources of risks into a single quantitative risk measure. Such a measure would give the management of the bank an idea of what its aggregate risk exposure at any point in time. In this regard, the bank should consider the use of the economic capital methodology. An economic capital method attempt to assess the amount of capital needed to support a given set of business activities for improved financial performance.

5.5 Areas for further research

The following areas are suggested for further research;

To examine the effect of risk management on service delivery. This can help to recognize the importance of information sharing in enhancing service delivery, given its quantitative importance, a careful assessment of the implementation

To assess the effect of risk management on the operational effectiveness of an organization. This will help to identify unique bank strengths and weaknesses, which in itself inform an institutions profitability, liquidity and credit quality. Financial crisis to analyze how risk relates to bank business models. Institutions with higher risk exposure had less capital, larger size, greater reliance on short-term market funding, and aggressive credit Growth

he available knowledge on information sharing and risk management and financial performance of commercial banks and also fill the gap on the relationship between these variables . he level of distress of the riskier banks is more sensitive to loan growth, customer deposits and market funding. More precisely, a stronger customer deposit base is relatively more effective in reducing distress for the riskier compared to the less risky banks. Similarly, a higher proportion of market funding increases the likelihood of distress of the riskiest banks although it has no effect on the less risky institutions

To investigate the relationship between Risk Management and Entrepreneurial Development. how risk management practices can be properly implemented to reduce cases of fraud. because it is effective in distinguishing high performing banks from others, tends to compensates for disparities and controls for any size effect on the financial

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APPENDICES

APPENDIX A: QUESTIONNAIRES FOR ECOBANK (U) LTD STAFF

Dear Respondent,

I am a student of Kyambogo University pursuing a study on; “*Risk Management and Financial Performance; A case study of EcoBank (U) Limited*”. You are among the chosen ones to participate in the study by providing information. This study is a requirement for partial fulfillment for the award of the degree of Master in Business Administration of Kyambogo University and is purely for academic purposes. Therefore the information given will be treated with utmost confidentiality. I therefore request you to spare some time and help me to fill in these questionnaires. Your response is highly appreciated. Thank you for your cooperation.

Section A: Respondent’s Bio-Data

Instruction: Please tick the most appropriate option that applies to the topic of study in relation to your organization.

- A. Gender: i) Male ii) Female
- B. Age : i) 20 and below ii) 21-24
 iii) 25-28 iv) 28 above
- C. Education level: i) Certificate ii) Diploma
 iii) Degree iv) Master
 v) Other.....
- D) Length of service at Ecobank (U) Limited
- | | | | |
|--------------------------|-----------|--------------------------|--------------|
| <input type="checkbox"/> | 1-3years | <input type="checkbox"/> | 4-7 years |
| <input type="checkbox"/> | 8-11years | <input type="checkbox"/> | 12 and above |
- E. Position of responsibility
- | | | | | | |
|--------------------------|----------------|--------------------------|------------------|--------------------------|------------|
| <input type="checkbox"/> | Credit Officer | <input type="checkbox"/> | Risk analyst | <input type="checkbox"/> | Management |
| <input type="checkbox"/> | Accountant | <input type="checkbox"/> | Markets Officer. | | |

Section B: Questionnaire on Risk Identification of Ecobank(U) Limited

The table below shows alternative responses; evaluate each statement and tick in the appropriate box basing on the following scale for sections B, C and D

Response Scale:	I strongly disagree	I disagree	I am not sure	I agree	I strongly agree
	1	2	3	4	5

No	The Influence of Risk Identification(RI)	1	2	3	4	5
1	Ecobank has Risk registers and risk reports					
2	Audit reports help Ecobank forecast its liquidity					
3	Ecobank reviews Internal and external kinds of credit risks					
4	Staffs at Ecobank vest in risk planning and management activities.					
5	Ecobank scans the environment to identify new and emerging risks.					
6	Surveys/Questionnaires help Ecobank to prevent delay in identifying risk.					
7	Business Impact Analysis (BIA) reveals the bank's risk resources.					
8	RI exposes increasing chance of losses and their severity.					
9	SWOT analysis ensures effective risk management.					
10	With RI, Ecobank easily meets unexpected demands.					
11	RI at Ecobank has helped to tighten lending and increased loan recovery					

Section C: Questionnaire on Risk Analysis and Mitigation of Ecobank (U) Limited

The table below shows alternative responses; evaluate each statement and tick in the appropriate box basing on the following scale for sections B, C and D

Response Scale:	I strongly disagree	I disagree	I am not sure	I agree	I strongly agree
	1	2	3	4	5

No	The effect of Risk Analysis and Mitigation	1	2	3	4	5
1	Ecobank assesses the impact of exposure to promote timely business development					
2	Estimating risk significance improves financial management and promotes business growth					
3	Ecobank assesses the frequency of occurrence manage risks, coordinate activities and improve financial growth					
4	With risk analysis, the ratio of donor equity to total equity always declines annually					

5	Risk analysis at Ecobank reduces costs and increase Capital Adequacy to overcome poor financial performance					
6	Assessing the significance of inflation risk helps to control customer Loans for better financial performance					
7	Analyzing market risks abet to maintain risk at reasonable assurance and cost-benefit to increase revenue					
8	Risk analysis helps Ecobank to increase the operating accounts balances					
9	Risk analysis has helped Ecobank adopt more aggressive strategies for realizing loan growth and better asset ratio					
10	Responsible team continually monitors effectiveness of risk levels for better financial performance					
11	Risk analysis has accelerated growth of Total deposits					
12	Risk analysis has attracted growth in the bank's core capital adequacy ratio					
13	Risk analysis has helped Ecobank to reduce uncertainty and liquidity risk associated with the deposits/credits					

Section D: The effect of Risk Monitoring on financial performance of Ecobank (U) Limited

The table below shows alternative responses; evaluate each statement and tick in the appropriate box basing on the following scale for sections B, C and D

Response Scale:	I strongly disagree	I disagree	I am not sure	I agree	I strongly agree
	1	2	3	4	5

No	Risk Monitoring and financial performance	1	2	3	4	5
1	Ecobank monitors risks to ensure no alteration in financial priorities					
2	Risk monitoring allows timely reports on the financial condition					
3	Risk monitoring permits clear understanding of the financial position and risk exposures.					
4	Risk monitoring practices and reports address all of its material risks					
5	With Risk monitoring, procedures are tested for reliability on an on-going basis to improve investment potential					
6	Risk monitoring ensures compliance with established limits, goals, or objectives.					

7	Decision-makers are able to identify any adverse trends and to adequately evaluate the level of risk faced.					
8	Ecobank monitors the credit contractual repayment schedules for improved financial position					
9	Risk monitoring lowers credit risk of the Group's portfolio and risk versus financial return conditions					
10	Monitoring applicant's financial position, uses of funds, resources allows repayment & boosts financial performance					
11	Monitoring compliance with the established policies, lowers liquidity risk for high financial performance					
12	Monitoring of actual losses incurred boosts FP					
13	Risk monitoring reduces risks for effective financial performance					
14	Risk monitoring can assist in lowering the risk burden					

Sec E: the Financial Performance of Ecobank (U) Limited

The table below shows alternative responses; evaluate each statement and tick in the appropriate box basing on the following scale for sections B, C and D

Response Scale:	I strongly disagree	I disagree	I am not sure	I agree	I strongly agree
	1	2	3	4	5

No	Ecobank has a solid financial base to sustain its operations					
1	Ecobank incurs costs of maintaining the value of equity relative to inflation					
2	We always strive to increase our income by increasing our portfolio yield					
3	Ecobank reduces operational and financial costs through efficiency and productivity of lending					
4	Ecobank strives to reduce loan loss write offs by managing portfolio quality					
5	The default rate has been reducing annually					
6	Ecobank's level of financial self-sufficiency has been increasing annually					

“Thanks for your Cooperation”

APPENDIX B: INTERVIEW GUIDE FOR THE MANAGEMENT

Dear Respondent,

I am, a final year student of Kyambogo University pursuing a Master's Degree of Business Administration. I am conducting a study on: ***“Risk Management and Financial Performance; A case study of Ecobank (U) Limited”***.

I am required to submit a research report as part of the requirement for the award of Master's Degree of Business Administration of Kyambogo University. The purpose of this interview guide is to gather information to enrich the study findings. The study shall be entirely academic and thus any information provided will be treated with utmost confidentiality.

1. What are the types of Risks affecting financial performance in the banking sector?
2. What are the causes of risks in the banking industry in Uganda?
3. What is the procedure for risk management used in your organization?
4. What are the effects of risk identification on financial performance of Ecobank (U) Limited?
5. What are the effects of risk analysis and mitigation on financial performance of Ecobank (U) Limited?
6. What are the effects of risk monitoring on financial performance of Ecobank (U) Limited?
7. What challenges does Ecobank experience in implementing appropriate risk management strategies?
8. What can be done to enhance efficient and effective risk management as well as financial performance?

“Thanks for your Cooperation”

APPEDNDIX C: KREJCIE & MORGAN SAMPLING TABLE

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