OPERATIONAL RISK MANAGEMENT AND FINANCIAL PERFORMANCE IN THE BANKING SECTOR IN UGANDA: ACASE STUDY OF STANBIC BANK MPIGI BRANCH UGANDA

BY
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2016/FEB/MBA/M219187/WKD

A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS ADMINISTRATION IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTERS OF BUSINESS ADMINISTRATION OF NKUMBAUNIVERSITY, ENTEBBE, UGANDA

OCTOBER, 2017

DECLARATION

I, Lukwago Emmanuel, hereby declare that this Dissertation is my original work and has never been presented to any University or institution of higher learning for any academic award.

Signed…………………………………….. Date……………………………….

LUKWAGO EMMANUEL (Candidate)

APPROVAL

I certify that, Mr. Lukwago Emmanuel carried out research on Operational Risk Management and Financial Performance in the banking sector in Uganda: A case study of Stanbic Bank Uganda, Mpigi branch under my supervision.

Signed…………………………...………. Date…………………….……….

Mr. OWINO JOSHUA (SUPERVISOR)

DEDICATION

This work is dedicated to my Grandparents: Late Mr. and Mrs. Lugolobi John Baptist and Elizabeth Lugolobi.

ACKNOWLEDGEMENTS

First, I thank the Almighty God for the gift of life, wisdom, protection, everlasting love and the strength granted to me in all my studies and other undertakings. May your Holy Name be lifted high!!!

I greatly extend my sincere gratitude to Mr. Owino Joshua, for his guidance and support in completing this dissertation. It would have not been easy without him and may the Almighty God grant him success and happy life all the days of his life.

I greatly acknowledge all the respondents at Stanbic Bank Uganda, Mpigi Branch who availed me with research data.

LIST OF ABBREVIATION AND ACRONYMS

CEOs   Chief Executive Officers

SAQ   Self Administered Questionnaires

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ABSTRACT

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

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

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

The results from the study revealed that there is a significant positive relationship between operational risk management and financial performance in Stanbic Bank which is represented by R^2 of 57%. The findings are consistent with the view that operational risk management is management function that is critical for proper financial performance and the study further revealed that, the monitoring system of Stanbic Bank is weak and this has caused some loss to the Bank.

The study recommended that, Management of Stanbic Bank should tighten its operational risk management systems in order to continue improving its financial performance and Stanbic Bank should regularly study and assess its opportunities to achieve its financial objectives. The Bank should also improve on its monitoring system in order to avoid some losses. The study also came up with areas for further study which include:

   i.   Internal financial controls and financial performance of Stanbic Bank.

  ii.   Credit risk management and profitability of commercial Banks in Uganda

 iii.   Liquidity risk management and financial performance of Stanbic Bank.

CHAPTER ONE

INTRODUCTION

Background to the Study

The study is about the Operational Risk Management and Financial Performance in the Banking

Sector in Uganda focusing on Stanbic Bank Uganda, Mpigi Branch as a case study.

The study is very important because the management of operational risk by banks is a

phenomenon that is widely accepted by most banking industries worldwide. Although, Stanbic

Branch Mpigi Branch has almost universal embarked on upgrading its operational risk

management and control system, this study assesses the effectiveness of operational risk

management. This is substantiated by the fact that most of the banks are taking cognizance of the

qualitative and quantitative criteria for operational risk management advocated by the Basel

Committee on banking risk monitoring (2003). According to Bank of Uganda (2014), Stanbic

Bank is one of the many banks in Uganda that have experienced cases of improper risk

management. It portrays a true picture of what could be happening in other banking industry in

the country.

Operational risk is not a new risk in banking. In fact, it is that banks must manage, even before

they make their first loan or execute their first trade. However, the idea that operational risk

management is a discipline with its own management structure, tools and processes, much like

credit or market risk, is new (PWC, 1997). PWC (1997) defined operational risk as the risk of

direct or indirect loss resulting from inadequate or failed internal processes, people, and systems

or firm external events. Such events lead to financial losses through error, fraud, fire or other

disaster (Basel, 1998). Commercial Banks have explicitly dealt with risk throughout their

existence. The very nature of banking activities requires these institutions to assume financial risks while providing innovative products to meet the needs of their clients. Institutions will continue to rely on gap management, credit scoring, and risk based capital requirements to cope with risk. However, new approaches must be developed and implemented to cope with the new financial products and services brought on by rapidly changing technology, the availability of real-time information, and increased competition (Bankers Magazine, 1997).

Birlay (2001) asserts that financial performance is an approximation for financial success that is, the rate at which the enterprise is satisfied with the profits and growth levels attained. Financial performance looks at the results of a firm's policies and operations in monetary terms that is, a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Hillman & Keim 2001).Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Dess & Robinson, 2003).

Financial performance is a situation where depositors' funds are safe in a stable banking system. The financial soundness of a financial institution may be strong or unsatisfactory varying from one bank to another (BOU, 2002). Some useful measures of financial performance which is the alternative term as financial soundness are coined into what is referred to as CAMEL. The acronym "CAMEL" refers to the five components of a bank's condition that are assessed: Capital adequacy, Asset quality, Management, Earnings, and Liquidity. A sixth component, a bank's Sensitivity to market risk was added in 1997; hence the acronym was changed to CAMELS.

Ratings are assigned for each component in addition to the overall rating of a bank's financial condition (Jose, 1999).

Risk is the possibility of an adverse event occurring with the potential to adversely affect the interests of the organization (Bagumire, 2006). This issue of risk has gained prominence worldwide and this problem has been captured at global level and at the commercial banks level. For international settlement, mechanisms have been developed to deal with this problem through Basel II. According to Basel (2002), operational risk is the risk resulting from the inadequate or failed internal processes, people and systems or from external events. The impact of operational risk on an organization is portrayed in the form of direct financial loss, earning volatility, financial distress, and non financial effects on the future earnings capacity of the organization. Basel II want to address this issue through requiring banks to adopt mechanisms or standards. This is promoted by an enabling organizational environment to support banks to grow. The failure to manage risk has affected banks leading to some failing and others experiencing financial distress.

At the international level, notable institutions affected included the collapse of Barings Bank, financial losses of US$ 8bn in Societe Generale and US$38 billion in UBS the Swiss banking giant which are examples of the impact of operational risk in banking. All this is attributed to poor management of risk (Sabastian 2008). The cause of financial loss in Society General was attributed to one individual who traded in unauthorized derivatives, (Sabastian, 2008 and Jean, 2008. According to Figueira, Nellis and Parker (2009), banks in Spain and Portugal had improved their performance over time due to technological change which is consistent with the

study on performance evaluation and risk analysis of online banking service by Wharton (1992) whose findings indicated that most giant banks were performing well. This was attributed to employees as the key variable that contributed most of the banks revenue.

The financial and economic crisis has increased the preoccupations for the development of risk management over the last few years. As a result an appropriate terminology of the risk, sustained by modern and efficient methods and management instruments were developed. Guides, methodologies and standards have been drawn up with the purpose of formalizing the risk management implementation and the process, the organizational structure and the objectives of risk management (Ferguson, 2003). The guides and standards not only provide information on the process to be adopted in risk management, but also contain advice on how that process should be implemented successfully (Basel 1998). The standards formalize the operational risk management process in order to improve their effectiveness, but they don't guarantee it.

Once an organization decides to adopt a standard for risk management, it also has to deal with some practical considerations in order to implement it successfully by elaborating a plan for operational risk management implementation, designing an organizational structure for risk management. With a greater level of specificity, making risk management part of the enterprise culture, determining all risks categories of the organization, establishing a group of criteria and indicators that measure risk management effectiveness (Brown, 2012).

According to KChijpriga (1997) emphasizes in the implementation of operational risk management system to meet the challenges of the twenty-first century. Specifically, management of these institutions will be compelled to identify their current risk exposure as well as potential

exposure resulting from new business opportunities. These institutions will then be required to institute strategies to minimize these risks.

Banking industry is in the risk business, the past decade has seen dramatic losses in the banking industry. Firms that had been performing well suddenly announced large losses due to credit exposures that turned sour, interest rate positions taken, massive frauds, or derivative exposures that may or may not have been assumed to hedge balance sheet risk. In response to this, commercial banks have almost universally embarked upon an upgrading of their operational risk management and control systems in order to survive in the new risk environment (Santomero, 1997).

As seen in the recent development in the southern American economies, bank failures lead to contraction of activities and decline in output in the economy. They normally lead to a multitude of losers such as;- uninsured depositors losing all or part of their deposits; insured depositor suffering temporary liquidity problems; firms losing financing and other bank benefits; Chief Executive Officers (CEOs) of the banks and bank employees losing their jobs or getting unwanted transfers and banks which have banking relations getting negative spill-over effect (Chijoriga, 1997).

Furthermore, bank failures impose substantial costs in the economy, and in particular on taxpayers, who have borne the burden of the central bank's losses and of reimbursing insured deposits (Brown, 1998). They also have an adverse effect on other local small financial institutions that have been managed in an honest and prudent manner (Brown, 1998). Bank

failures damage the credibility of financial institutions throughout the financial sector, raising costs of deposits and forcing financial institutions to maintain high levels of excess liquidity as a precaution against bank runs (Brown, 1998).

Bank failure is caused by several factors identified by various researchers (Kimei, 1998). These are; breakdown of internal controls which lead to fraud and dishonesty, embezzlement, poor credit risk management, failure to cope with technological changes, poor and sluggish monetary and fiscal policies, bank deregulation/regulation policies and procedures, uncontrolled involvement of political connections to secure public sector deposits as well as heavy reliance on deposits from a few particular parastatals. Cruz (2013), reveals that, a number of recent banking problems arise from breakdowns of internal controls such as; Lack of adequate management oversight, accountability, and failure to develop strong control culture, absence or failure of key control structures and activities, inadequate communication of information between levels of management and inadequate or ineffective audit programs and risk assessment activities.

Additionally, selective exposures such as credit cards, credit and financial risk are not the causes of insomnia today, in large part because banks have a good handle on how to control them. The big worries today and going forward are the risks that are harder to measure and predict operations compliance, litigation, reputation, and strategic risks and the interrelationships among them.

The effect of risk materializing is widespread and is illustrated by documented failures in both centralized and decentralized economies (Chijoriga, 1997). In Africa, failure has been experienced in more than 40 countries including Ghana, Kenya, BukinaFarso, Burundi,

Cameroon, United Republic of Congo, South Africa, Uganda, Tanzania, (Kimei, 1998). The tragedy is that this is a continuing trend encouraged by both internal and external factors.

Cynthia (1997) defines risk management as the act or practice of controlling risk. It includes risk planning, assessing risk areas, developing risk handling options, risk assessment risks to determine how risks have changed, and documenting the overall risk management program. It calls for a structured yet flexible approach that constantly remain scanning but with adequate facilities to receive and give management feedback on changes and developments.

Basel (2001) recognizes that the exact approach for operational risk management chosen by an individual bank will depend on a range of factors, including its size and sophistication and the nature and complexity of its activities. However, despite these differences effective operational risk management has five components, a strong internal control culture (including, among other things, clear lines of responsibility and segregation of duties), effective internal reporting, and contingency planning are all crucial elements of an effective operational risk management framework for banks of any size and scope.

The management of these risks is typically informal, implicit, and often not as effective as we might like. We have already seen well-publicized evidence of just how much damage can be done to banks' shareholder value by exposure to these risks. Public reports on incidents such as at Barings and Daiwa suggest that they were due to operation failures (Terry, 2001).

Cynthia (1997) further notes that system accidents were bound to happen. There are numerous other examples of systems failures and human errors that, much to the relief of the affected

banks, have not been publicized. Nevertheless, they have caused serious internal problems, raised regulatory red flags, and resulted in sleepless nights for directors and bank management. Reducing the volatility of earnings resulting from risk exposures, risk management is the only path to follow. Risk management combines an expanded view of risk and a framework that builds risk management and control into everyday banking activities, at all levels of a bank.

In the case of Uganda, the financial sector has undergone several reforms geared among other things toward improvement of operational risk management. The reforms in the sector brought about the formation of the operational risk management framework which is now operational in all commercial banks including Stanbic Bank Mpigi Branch Uganda Ltd. During 2014, cases of theft of over two billions of money occurred in Uganda, Equity Bank, Stanbic and Barclays Bank demonstrated the significance of taking risk seriously by implementing effective internal controls. However, Crane Bank became a victim of improper management of operational risks which led to its closure. Stanbic Bank Mpigi Branch has shown the way by creating an independent unit responsible for managing operational risks. Operational Risk Manager heads the unit. This unit monitors and controls risk on daily basis. Despite of the relevant units, operational Risk manager is responsible for ensuring that the bank is not excessively exposed. This emphasizes the role of risk management.

Stanbic Bank Uganda Limited is a subsidiary of Standard Charted Bank group Limited with over 73 branches and 157 ATM's spread across the country. According to the bank's performance of 2009, Stanbic Bank made a pretax income of Ugx 122.5 billion and in 2010 recorded UGX. 87.6

billion showing a decrease of 34.9 billion in pretax income of the bank. In regard to profit after tax, the bank realized UGX 72.1 billion showing a decreased of 24.4% from UGX. 95.3 billion.

Deregulation and globalization of financial services, together with the growing sophistication of financial technology are making the activities of banks (and thus their risk profiles) more diverse and complex (Dowd, 1998). Developing banking practices suggest that risks other than credit, interest rate and market risk can be substantial (Basel, 2001). Examples of these new and growing risks faced by banks include the use of more highly automated technology which has the potential to transform manual processing errors to system failure risk. Due to highly automated technology, greater reliance is placed in globally integrated systems, there is growth of e-commerce that brings with its potential new risks (eg external fraud and system security issues) that are not yet fully understood (Barger, 1997).

Similarly, the existence of the governance structure framework has not cubed the rampant unethical behaviour by staff at the bank. Stanbic Bank faces operational, financial and strategic risks. According to the Stanbic Banks Annual report (2009), "the banks approach to risk management is based on a well established governance process and relies on both individual responsibility and collective oversight supported by comprehensive reporting" the bank also has risk management structures in form of risk management committee of the board of directors, credit risk committee, audit committee and internal audit assurance whose primary objective is the provision of assurance to the audit committee on the quality of controls (Stanbic Bank Annual Report, 2013). As a result, Stanbic Bank Uganda put in place an operational risk management policy that is aimed at identifying, assessing, and risk assessment operational risk in

its banking operations. According to risk management policy (2010) of Stanbic Bank, the following are stated as the objectives to be achieved in their operations:

1. To identify operational risk

2. To assess the degree of operational risk

3. To analyze the operational risk

4. To monitor the operational risk type

5. To set up the operational risk management mechanism

6. To carry corrective actions where necessary

7. To provide security to clients saving through the use of appropriate risk management techniques.

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

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

Research Objectives

The study was guided by the following objectives;

   i.   To examine how Stanbic Bank has identified the degree of risk to enhance liquidity.

  ii.   To analyze how risk assessment has ensured profitability in Stanbic Bank Mpigi branch.

 iii.   To examine how Stanbic Bank has monitored operational risk to enhance reduction in non-performing loans.

Research Questions

The study was guided by the following questions:

   i.   How has Stanbic Bank identified the degree of risk to enhance liquidity?

  ii.   How has Stanbic Bank analyzed operational risk to ensure profitability?

 iii.   How has Stanbic Bank monitored operational risk to enhance reduction in non-performing loans?

Hypothesis of the study

H_0: There is no significant relationship between operational risk management and financial performance in Stanbic Bank Mpigi Branch.

H_1: There is a significant relationship between Operation Risk management and financial performance in Stanbic Bank Mpigi Branch.

Scope of the Study

The scope of the study was divided into three, namely; geographical, content and time scope as shown below;

Geographical scope

The study was carried out in Stanbic Bank Mpigi Branch located on Masaka Kampla road (37 Km from Kampala City) in Mpigi District which is located in Central Uganda and it is boarded by Wakiso, Kalugu, Butambala and Mityana districts.

Content Scope

The research focused on operational risk management as independent variables and financial performance as dependent variable. Operational risk management was looked at in terms of risk identification, risk analysis and risk assessment and risk ministry while financial performance was in terms of profitability, liquidity and loan portfolio.

Time scope

The study examined the financial performance of Stanbic Bank from 2013 to 2015.

Significance of the Study

The study may be significant to the stakeholders in the following ways:

Management of Stanbic Bank

Experience with large losses is infrequent and many banks lack time series of historical data on their own operational losses and their causes (Basel, 1998). This study shall provide practical guidance on best practice in regard to an effective way of operational risk management. Management of the Bank shall benefit from the research by utilizing the findings to adjust or re-design their operational risk management programs.

Stakeholders

The significance of this study cannot be over looked. This research would be of great importance to the stakeholders of Stanbic Bank Uganda. This research will go a long way to minimize the cost of risk in Stanbic Bank financial activities. It will boost the confidence that the general

public have in the bank since the rampant collapse among banks may reduce drastically as a result of this study.

Other commercial banks

This study would be of great importance to other commercial banks in Uganda as it may help them to formulate proper risk management which will enhance financial performance. It shall make awareness to bankers on principles guiding operational risks in Banking industry. This will be done through add more values on the few studies done about operation risk management in Uganda

Government

The Government may also benefit from this study in the sense that it will give direction to the government to formulate operational risk management policies to the banking industry in the country.

Researchers

It will further contribute to build knowledge on methods used to manage operational risks, the area of operational risk management, provide suggestions to the improvement of the operational risk assessment, and control practices in the commercial banks. Finally, the study findings, conclusions and recommendations will add literature to the existing body of knowledge in higher intuitions of learning and thus act as a source of literature for further researchers.

Arrangement of the Study

This research work is presented in eight chapters.

Chapter one: chapter one is the introduction, it contains the background to the study, the problem statement, purpose of the study, research objectives, research questions, scope of the study, significance of the study and the last aspect the arrangement of the proposal.

Chapter two: this chapter presents the literature survey, literature review, and the conceptual framework.

Chapter three: this chapter focused on the methodology the study including the research design, study population, sample size, data collection methods, data collection instruments, data processing, data analysis, ethical consideration and limitation of the study.

Chapter four: presents findings on how Stanbic Bank has identified the degree of risk to enhance liquidity.

Chapter five: contains findings on how Stanbic Bank has analyzed operational risk to ensure profitability.

Chapter six: focused on how Stanbic Bank Uganda has monitored operational risk to enhance the reduction in non-performing loans.

Chapter Seven: Focused on the harmonizing operational risk management and financial performance in Stanbic Bank Uganda.

Chapter Eight: focuses on the summary, conclusion and recommendation of the study.

Finally, references and appendices

CHAPTER TWO

STUDY LITERATURE

Introduction

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

Literature survey

This sections looks at other studies done in risk management and financial performance in the banking industry in Uganda, with a view of identifying the gaps left to be filled by the current study.

Kasekende (2010) carried out a study on the role of credit management in the performance of indigenous Commercial Banks in Uganda focusing on Centenary Bank as the case study. His study was guided by the following objectives (i) to examine how Centenary Bank has ensured that its loan portfolio is maintained within acceptable limit. (ii) to examine how Centenary Bank has ensured compliance with regulatory requirements and, (iii) to examine how Centenary Bank has solved the problem loans, including rescheduling and restructuring so as to enhanced its performance. The methodology included the use of both qualitative and quantitative tools, where by 64 questionnaires were used to answer the research questions, the results of which are presented revealed that, there is a significant positive relationship between the three variables and the performance of Centenary Bank. Basing on the results, the study recommended measures that include; formulating clear written policies and procedures which should be communicated to all employees in the bank, excellent product pricing, emphasizing on both onsite and offsite risk monitoring of borrowers, proper loan documentation through the use of pre disbursement checklists that confirm that all requirement of loan process have been satisfied before loans can

be approved and disbursed, This study did not consider operational risk management and financial performance which was the concern of the current study. Besides the previous study was in Centenary Bank which is completely different environment.

Zimbe (2011) studied the role of internal audit function and risk management in Commercial Banks in Uganda, using Barclays Bank Uganda Limited main branch as a case study. The study administered 48 questionnaires to respondents and data were analyzed using both descriptive and inferential statistical methods under SPSS version 11. The results revealed that there is   a significant positive relationship between internal audit function and risk management in Barclays Bank Uganda Limited main branch, reflected through adoption of a strategic approach to risk management. Zimbe recommended that the function adopts the enterprise-wide risk management model rather than the traditional control based model. Zimbe did not examine the contribution of operational risk management and financial performance in commercial banks in Uganda. This study seeks to close this gap.

Muwonge(2012) carried out a research on risk management and fraud elimination in Ugandans' banking sector, she used Barclays bank Jinja branch as her case study. She used SAQ where 89 respondents which comprises of 15 staff, 4 security and 70 customers of the bank. Her study asserts that any consideration of an appropriates policy formulation for financial institution must begin by first by recognizing the fundamental character of financial transactions, the study also reveals that a number of frauds exist in the operation of Barclays bank Jinja branch. She recommended that to protect against such fraud, customers are encourages to exercise care safety

precautions in keeping cheques book and issuing cheques. The study was silent about risk identification, assessment and monitoring and thus, the current study closed this gap.

Literature Review

Risk management in Banks attracted several researchers; within the last few years, a number of studies have provided the discipline into the practice of risk Management within the corporate and banking industry. The following is an attempt to summarize the main conclusions of some selected studies.

Al-Tamimi and Al-Mazrooei (2007) compare risk management practices and techniques in dealing with different types of risk in national and foreign banks in UAE using a questionnaire split into two parts. The first part covers the issue related to understanding risk and risk management, risk assessment and analysis, risk identification, risk risk assessment, risk management practices and credit risk analysis. While, the second part of the questionnaire focuses on the methods of risk identification in addition to risks faced by banks in UAE. The study shows that the most important types of risk facing the UAE commercial banks are foreign exchange risk, followed by credit risk, then operating risk. The study found also that the UAE banks are somewhat efficient in managing risk, risk identification, risk assessment and analysis are the most influencing variables in risk management practices. Finally, the results indicate that there is a significant difference between the UAE national and foreign banks in the practice of risk assessment and analysis, and in risk risk assessment and controlling.

Al-Tamimi (2002) examines the degree to which the UAE commercial banks use risks management techniques in dealing with different types of risk. The study found that the UAE

commercial banks were mainly facing credit risk. The study also indicates that inspection by branch managers and financial statement analysis were the main methods used in risk identification. The main techniques used in risk management according to this study were establishing standards, credit score, credit worthiness analysis, risk rating and collateral. Besides the study highlights the willingness of the UAE commercial banks to use the most sophisticated risk management techniques, and recommended the adoption of a conservative credit policy.

Alam and Masukujjaman (2011) diagnosed the risk management practices of some selected commercial banks operating in Bangladesh. The study revealed that credit risk, market risk and operational risk are the major risks to the bankers which are managed through three layers of management system. The Board of Directors performs the responsibility of the main risk oversight, the Executive Committee monitors risk and the Audit Committee oversees all the activities of banking operations. Regarding use of risk management techniques, it is found that internal rating system and risk adjusted rate of return on capital are relatively more important techniques used by banks in Bangladesh.

Al-Tamimi (2008) studied the relationship among the readiness of implementing Basel II Accord and resources needed for its implementation in UAE banks. Results of the research revealed that UAE banks are ready for the
Implementation of Basel II, No significant difference was found in the level of Basel II Accord's preparation between the UAE national and foreign banks. It was concluded that there was a significant difference in the level of the UAE banks Basel II based on employees education level. The results supported the importance of training and education level needed for the

implementation of Basel II Accord. The relationship between readiness and anticipated cost of implementation was also not confirmed.

Marlin (2002) examines risk management practices of Islamic banks of Brunei Darussalam using a similar methodology to Al-Tamimi and Al-Mazrooei (2007). The study found that the three most important types of risk that Islamic banks in Brunei Darussalam face are the foreign-exchange risk followed by the credit risk and then the operational risk. Concerning the most important methods used by Islamic bankers in risk identification, the results reveal that inspection by *Shari'ah* supervisors, executive and supervisory staff, audit and physical inspection, financial statement analysis and risk survey are the most significant factors of risk identification. It also finds that, Islamic banks in Brunei Darussalam are reasonably efficient in risk assessing and analysis, risk management, risk identification and less efficient in credit risk management.

Ngirwa (2006) conducted a research on the risk management in Islamic banking in Pakistan. The authors use the same model suggested by Ngirwa (2006) of risk management practices. The results indicate that Islamic banks are somewhat reasonably efficient in managing risk where understanding risk and risk management risk risk assessment and credit risk analysis, are the most influencing variables in risk management practices.

Another line of research has been focused on the comparison between the practice of risk management in Islamic banks and conventional banks. Ngirwa (2006) provided a comparative study of Bank's Risk Management of Islamic and conventional banks in the Middle East region.

The study aims to identify the most important types of risk facing the Islamic banks and conventional banks in the Middle East. The multi regression model and ANOVA test prove that there is a positive relationship between risk management practices and understanding risk, risk management, risk identification, risk assessment and analysis, risk risk assessment, risk, and credit risk analysis in Islamic banks and Conventional banks.

Tanampasidis (2008) conducted a comparative analysis on risk management practices between the Islamic and conventional banking system in Bahrain. The new modified dummy variable bank type has been used to make the optimum comparison. The deduction of the study was understanding of risk and risk management, risk identification, risk assessment analysis, risk risk assessment, credit risk analysis have a positive and significant effect on risk management practices in Islamic and conventional banking of Bahrain. The comparative study indicates that the levels of risks faced by Islamic banks are found to be significantly higher than those faced by conventional banks. Similarly, country, liquidity, and operational, residual, and settlement risks are found to be higher in Islamic banks than in conventional banks. These findings are attributable to differences in the products of both types of banks that lead to unique risks to Islamic banks.

Tanampasidis (2008) explore the current risk management practices that are adopted by commercial and Islamic banks in Pakistan. The data has been collected from the questionnaire to generalize the finding of comparative analysis. A regression model was used to elaborate the results which showed that Pakistani banks are efficient in credit risk analysis, risk risk assessment and understanding the risk in the most significant variables of risk management.

Moreover the findings of the research revealed that there is significant difference in risk management practices of the Islamic and conventional banks of Pakistan.

Theories and models
Positive Accounting Theory

Managers have different reasons to make accounting choices given that the markets are not perfect. Under these assumptions, there are three reasons to accept different accounting choices (Whaton, 1992). The first reason is the presence of agency costs. Management might have incentives to choose an accounting method that maximizes their compensation schemes. This has been one of the areas where a relation between the manager's incentives and their accounting choices can be seen. The second reason is related to the intention of managers in influencing the asset prices or stock prices given the information asymmetry prevailing between managers and investors.

Managers take actions toward smoothing earnings over time, to avoid losses or to try to maximize the earnings over a period. The third reason is related to the intention of managers to influence external parties. Different accounting choices have different impact on the financial numbers, and managers expect to influence them with the information presented. The most important argument in favor is that corporate risk management creates value. In addition, accounting plays an important role reflecting the "reality" of the firm, which is in turn shown to the market through disclosure rules. On the other hand, increased market efficiency is achieved. The problem arises when those disclosure rules affect the decision- making process of risk management by providing different accounting choices. One of those options is hedge accounting; companies are allowed to take profits generated from hedging in reserve and account

them in the operating income matching the operations when they occur, thereby smoothing operating profits (Whaton, 1992).

Concept of risk

Clive (1996) defines risk as „potential for unwanted negative consequences of an event or activity „where as Dominic (1993) defines risk as the volatility of potential outcomes and the outcomes could be both negative and positive. In this study risk implied any unintended or unexpected outcome of decision or course of action. Expected losses are those that the bank knows with reasonable certainty occurred and are typically reserved for in some manner and Unexpected losses are those associated with unforeseen events; Banks rely on their capital as a buffer to absorb such losses.

The concept of risk is not a simple concept in finance, there is a risk in everyday's activities of every individual as well as every organization (Banks).You take risk every time you act. A lot of scorers and books have tried to give a meaning to risk. Risk is any situation where there is uncertainty about what outcomes will occur. In insurance, risk refers to the expected losses associated with a situation. Risk is the measure of the uncertainty about the frequency and consequences of unacceptable events (Dominic (1993)). According to Wikipedia (2009), risk is the potential that a chosen action or activity (including the choice of inaction) will lead to a loss (an undesirable).

Risk according to Alexander (1998) is a situation occasioned by internal or external environmental factors that create hindrances in the way of achieving certain objectives of an

entity. Risk can be defines as the possibility that something unpleasant or dangerous might happen. When companies indulge in business, it is obvious that they will be exposed to one type of risk or another which in most cases is an uncertainty although at times it can be certain that it will occur. According to investor words come risk is a quantifiable likelihood of loss or less-than-expected returns.

Risks are uncertain future events, which could influence the achievement of the bank's strategic, operational and financial objectives. The dimensions of risk included the impact on a bank's reputation, even the loss of legitimacy from activities deemed unacceptable to the community. Wharton F, (1992) suggests that the origin of the word risk is thought to be from either the Arabic word risq or Latin word riscum. Chijoriga (1997) further suggests that the Arabic word has the connotations of both a favorable and fortuitous outcome, while the Latin has an equally fortuitous meaning, but with favorable events. The Greek meaning of the word risk has neither positive nor negative implications. However the French risque word has mainly negative and occasionally positive connotations.

Dominic (1993) defines risk as "the potential for unwanted negative consequences of an event or activity" whereas . Chijoriga (1997) defined risk as "a measure of probability and severity of a adverse effects" define risk as "the chancing of a negative outcome". However, some authors have offered different views in defining risk. Dominic (1993), defined risk as the volatility of potential outcomes and the outcomes could be both negative and positive. As cited by Chijoriga, (1997) a more practical definition is the one given by Wharton (1992), to imply any unintended or unexpected outcome of decision or course of action.

Williams (1995) defines risk management as "the art of managing the uncertainties by making probabilities" Chijoriga 1997 defines risk management as the process of conserving the earning power of the assets of the firm or family by minimizing the financial impact of losses. While Kloman (1992) defines risk management as simply good common sense in coping with possible and actual daily mishaps, and occasional major disasters, that lead to financial losses and unfulfilled plans for individuals and organizations- indeed our society as a whole.

Operational risk

The term is defined as a risk incurred by an organization's internal activities. Operational risk is the broad discipline focusing on the risks arising from the people, systems and processes through which a company operates. It can also include other classes of risk, such as fraud, legal risk, physical or environmental risks. Timothy (1997) operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and system or from external events.

In this study, Operational risk is associated with human error, system failures and inadequate procedures and controls. It is the risk of loss arising from the potential that inadequate information system; technology failures, breaches in internal controls, Operational risk exists in all products and business activities.

Operational risk management

Operational risk management is an integral part of business and risk is good if it commensurate with an adequate level of return. Management in general must closely link operational risk management, achievement of corporate goals and reduced volatility of outcomes to drive performance. In achieving this, management must be willing to expand its approach to

shareholder value by integrating a dynamic concept of risk into its existing focus on growth and return. The work of Chijoriga 1997, Basel 1998, PWC 1997, Andrew 1995, George 2001, Cynthia 1997, urges that risk management process involves risk analysis (identification), risk assessment (measurement), risk handling, risk implementation, and risk review.

A successful operational risk management system requires an investment in the bank's infrastructure, and the key to success lies in the staffing of the operational risk management function. Individuals charged with this responsibility must have a clear understanding of the role that operational risk management plays in maintaining a sound and financially strong institution. Further, they must have a thorough understanding of the risks that a financial institution is exposed to during the normal course of business. The board of directors must lay out the guidelines under which the operational risk management function and set policies, procedures, and guidelines for the risk managers to follow.

The board also must ensure that those charged with operational risk management responsibility have the resources necessary to carry out their tasks and that they function as an independent unit. It is important that the organization must not treat the operational risk management unit as a profit center; the central idea is to reduce risk, not to increase profit. In addition, the operational risk management group must be independent of the activities that it is charged with. Finally, the operational risk management unit should report directly to senior management. In short, the board of directors is ultimately responsible for ensuring that banks carry out strategies and policies consistent with sound operational risk management practices.

In response to these developments, banks are structuring a new position of Head of operational Risk. Operational risk has traditionally been managed in the business and it is still the business units that are primarily responsible for taking and managing operational risk on a day-to-day basis. While the trend for market risk and credit risk is towards increasing centralization, operational risk by its nature is decentralized PWC 1997, Basel 1998. Structuring a new position aims at integrating operational risk management with market and credit risk in bank's wide risk management. In Tanzania only Barclays bank has a position of Head of Operational Risk, which is responsible for the bank's operational risk management. Other banks use the internal audit unit to oversee operational risk management issues.

The use of internal audit unit to manage operational risk has been ineffective compared with the new approach of having a unit solely responsible for risk management. Although Barclays bank is new in Tanzanian environment, no reported loss has been recorded so far whereas theft or other operational risk incidences in the past two years have been experienced amounting to billions loss of money. These losses can be attributed to breakdown of internal controls bank such as Stanbic Bank.

Operational risk management process sets out the overall procedures for operational risk management (PWC, 2001), Controls-definition of internal controls or selection of alternate mitigation strategy such as insurance, for identified risks. Assessment programs to ensure that controls and policies are being followed and determines the level of severity. These may include process flows, self –assessment programs, and audit programs, Measurements of a combination of financial and non-financial measures, risk indicators, escalation triggers and economic capital to determine current risk levels and progress toward goals, reporting information for management to increase awareness and prioritize resources.

Risk Identification and financial performance

Identification is a crucial stage in the operational risk management process. Risk analysis is the process of identifying the different risk involved, and determining the possible outcomes of actions and /or decisions. Chijoriga (1997), explained that management and other relevant personnel could identify key risks in business through workshops and interviews, brainstorming, use of questionnaires, and process mapping which involves identifying and mapping the core business processes/value chains (PWC, 1999) Risk identification is paramount for the subsequent development of viable operational risk assessment and control.

Effective risk identification considers both internal factors (such as the complexity of the bank's structure, the nature of the bank's activities, the quality of personnel organizational changes and employee turnover) and external factors (such as changes in the industry and technological advances) that could adversely affect the achievement of the bank's objectives.

Basel (2002) revealed that several processes commonly used by banks to help them identify and assess operational risk, these are: Self- Assessment that a bank assesses its operations and activities against a menu of potential operational risk vulnerabilities. This process is internally driven and often incorporates checklists and/or workshop to identify the strengths and weaknesses of the operational risk environment, Risk Mapping in this process, various business units, organizational functions, or process flows are mapped by risk type. This exercise can reveal areas of weakness and help priorities subsequent management action. Key Risk Indicators that are statistics and/or metrics, often financial, which can provide insight into a bank's risk position. These indicators tend to be reviewed on a periodic basis (such as monthly or quarterly) to alert banks to changes that may be indicative of risk concern. Such indicators may include the number of failed trades, staff turnover rates and the frequency and or severity of errors and

omissions, Scorecards provide a means of translating qualitative assessments into quantitative metrics that give a relative ranking of different type of operational risk exposures.

Some scores may relate to risk unique to a specific business line while others may rank risk that cut across business lines. Scores may address factors inherent risks, as well as the controls to mitigate them. In addition, scorecards may be used to allocate economic capital to business lines in relation to performance in managing and controlling various aspects of operational risk. Thresholds/limits**:** typically tied to risk indicators, threshold levels, (or changes) in key risk indicators, when exceeded, alert management to areas of potential problems.

Measurement: some forms have begun to quantify their exposure to operational risk using a variety of approaches. For example, data on a bank's historical loss experience could provide meaningful information for assessing the bank's exposure to operational risk and developing a policy to mitigate/control the risk.

An effective way of making good use of this information is to establish a framework for systemically tracking and recording the frequency, severity and other relevant information on individual loss events. Some firm have also combined internal loss data with external loss data, scenario analyses, and qualitative assessment factors.

Risk monitoring and financial performance

Andrew (1995) points out that entity face variety of risk from external and internal sources that need to be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. He further defined risk assessment as the identification

and analysis of relevant risk to achievement of the objectives, forming a basis for determining how risk should be managed.

Once risks have been identified, an assessment of possible impact and corresponding likelihood of occurrence have to be done. In the planning stage, management should agree on the most appropriate definition and number of categories to be used when assessing both likelihood and impact.

Once the source of risk have been identified and assessed, financial institutions must begin to measure the risks. As the foregoing list of risk indicates, this risk measurement process can be quite a challenge (Chijoriga 1997). According to financial theory, standard deviation is used as a good proxy measure of risk, and covariance of analysis is a more refined measure of risk.

Many non-market risks faced by commercial banks, (i.e. reputation risk, compliance risk) may be difficult to measure. They are nonetheless crucial to the firm's profitability and must be tracked. The market-related risks (i.e., interest rate risk, price risk, and foreign exchange risk) can be estimated though various modeling techniques.

Risk assessment and financial performance
This part of the operational risk management process entails a comparison of the actual risk levels with the levels permissible under the bank's operational risk management guidelines. Thus, the banks risk level would be continuously monitored to ensure that it remains within the acceptable range.

In addition to market risks, the bank would monitor other risk limits to ensure that their levels are consistent with established policies. In all of these instances, it is critical that the risk assessment

system provides immediate feedback to the management when actual risk levels depart from acceptable risk levels.

Control activities are the policies and procedures that help ensure management directives are carried out (Andrew, 1995). They help ensure that necessary actions are taken to address risks to the achievement of the banks objectives. Andrew (1995) asserts that control activities should occur throughout the organization, at all levels and in all functions. A careful risk assessment of the banks risk will provide management with red flags whenever the risk levels are beyond those permitted as specified in the operational risk management guidelines. In these instances, corrective measures should be undertaken to ensure that the risks are brought back in line with the guideline. The integrity of the operational risk management system will depend on the strength of its reporting system and internal control processes.

Financial performance

Most organizations view their performance in terms of "effectiveness" in achieving their financial mission, purpose or goals. At the same time, a majority of organizations also see their performance in terms of their "efficiency" in deploying resources. This relates to the optimal use of resources to obtain the results desired. Finally, in order for an organization to remain viable over time, it must be both "financially viable" and "relevant" to its stakeholders and their changing needs (Brown, 1998). Performance can be measured using various variables like profitability, ratio analysis and net assets among others. Internally, performance is driven by the organization's motivation to perform, which refers to the organizational culture, history, mission, values and incentive systems. These factors affect the quality of work, the nature of how the organization competes, and the degree of involvement of internal stakeholders in decision-making processes.

Financial performance is driven, in part, by organizational capacity, which we now understand as existing in seven basic areas: strategic leadership, human resources, financial resources, infrastructure, programming and process management, and inter-institutional linkages (Chapman 1983). Each of these seven capacity areas may be described in subcomponents, as for example in the organization's strategic leadership capacity which is understood as its structure, governance, leadership, strategic plans and niche management.

Banks reduce the cost of risk assessment and resolve incentive problems between borrowers and lenders (Chapman 1983). According to this traditional view, the close bank-firm relationship is important because their ties help monitor firm performance and enhance information production, which in turn improve firm access to capital and investment potential. However, if banks extract economic rents from the client firms through information monopolizing, they reduce firms' incentive to pursue new and profitable projects (Coleman, 1994). In addition, if banks are entrenched with the client firm, banks can impede economic growth (Coleman, 1994) suggests that if banks focus too much on loan repayment, then they will favor conservative investments and may forego riskier, possibly positive-net present value projects.

Sauders (1994) describe risk management as the performance of activities designed to minimize the negative possible losses. Dealing with risk has always been one of the areas that are looked at to ensure the success of any financial institution and its underlying principle (Sauders (1994)). Commercial banks are in the risk business and risk management is cornerstone of banking business (Hussien et al, 2010). Various studies have stated that good risk management practices can generally improve efficiency leading to improved financial performance. Sauders (1994) reveal that risk management as the biggest game where every financial institution are interested

in and banks need to understand and manage their risk according to their risk appetite and capacity. This is line with BCBS (2006) which categorically stated that the future of banking will undoubtedly rest on risk

Management dynamic. The general argument is that bank's survival is dependent on the way risk management practices are implemented and monitored.

Risk management are crucial in any banking industry as the survival and success of financial institutions in that the way you manage risk and share information greatly improves on their operations and therefore this mitigates information asymmetry between staff. This is agreement with Stijn (1993) that financial information sharing improves operations and hence reduces the information gaps. Stijn (1993) reveal that some of the characteristics of efficient banks are active involvement by directors and commitment to controlling bank risk exposure, particularly where ownership is concentrated and stockholders are likely to be less diversified.

This is also in line with Stijn (1993) who points that the survival and success of financial institutions depend on the efficiency on how they mitigate risks. Therefore information sharing, risk management is positively related to the financial performance.

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Dess & Robinson, 2003). Hayes and Wheelwright (2002) identified competitive priorities with certain dominant competitive modes as ways of improving financial performance.

In addition, (Kakuru, 2000) asserts that the competitive advantage of an organization is a means through which financial performance would improve. There are a number of financial performance measures, however there is little consensus about which instrument to apply. Many researchers use market measures like Alexander (1978) and while others put forth accounting measures like Cochran (1984). Furthermore Price Water House Copper (1999) argues that, primary business activity of commercial banks is lending and therefore the loan portfolio represents one of the largest assets and a predominate source of revenue. It is also a great source of risk to a bank's soundness. Whether due to lax credit standards, poor portfolio risk management, or weaknesses in the economy, loan portfolio problems have historically been the major cause of bank losses and failures. Brewerton (2001) add that while annual audits of loan portfolios may address these risks, experience has revealed that continuous risk assessment of the portfolio is the preferred approach. Identifying control breaches, anomalies and high risk activities early and employing a firm remediation strategy often prevents and certainly minimizes the impact of any potential impairment of the portfolio.

Brewerton (2001)finds that profitability levels compared to the cost were relatively low and this suggested for need to open the bank market, improve risk management, and bridge the information gap. Huissein et al (2010) reveals that the purpose of financial institutions is to maximize revenues as well as offer the most value to shareholders by offering variety of financial services especially by managing risks. This is also in line with Brewerton (2001)who points that the survival and success of financial institutions depend on the efficiency on how they mitigate risks. Therefore information sharing, risk management is positively related to the financial performance.

A lot of banks as a matter of fact, foil and collapse due to improper management of risk that they face off it becomes very embarrassing when risk is poorly managed. It is a major contributor to the failure of banks to achieve their objectives. When customers, clients, lenders etc realize that there is a constant depreciation of the banks profit, objectives etc as a result of poor management of risk which has contributed to banks failure, they lose confidence in the bank and sometimes causes bank run where savers customers demand their saving and deposits.

The best measure of a company is its profitability since it includes the two major factors of financial performance that is maximizing revenues and minimizing expenses and without it, it cannot grow, and if it doesn't grow, then its stock will trend downward. Increasing profits are the best indication that a company can pay dividends and that the share price will trend upward (Williams, 2008).

The general financial theory believes that the higher the risk, the higher the returns (Performance). Brewerton (2001)found out that Returns on the banks' stocks appear to be sensitive to risk management capability of banks. While Delbert (1991) found that highly leveraged microfinance institutions perform better by reaching out to more clientele, enjoy scale economies, and therefore are better able to deal with moral hazard and adverse selection, enhancing their ability to deal with risk. However, higher risk threatens the long term survival of the bank, Delbert (1991). Equilibrium between risk and return must be maintained through Recognition of both the potential value of opportunity and the potential impact of adverse effects, Delbert (1991).

As an approach to risk management, the Capital Asset Pricing Model, suggests elimination of unsystematic risk through diversification and investors rewards should be based on systematic risk. Delbert (1991) found out that non-banking activities are less risky and thus can be used to diversify the risk inherent in the commercial banking firm. Such diversification could engulf real estate, fund management, insurance, and broking activities, (Panayiotis, 2008). The researcher is of the opinion that since operational risk cannot be eliminated completely through diversification, it can be categorized as systematic risk and has to manage effectively.

Conceptual Framework

According to Delbert (1991)conceptual framework is an assemblage set of research concepts cum variables together with their logical relationships often presented in form of diagrams, charts, graphs, pictographs, flow-charts, organ gram or mathematical equations. Linked to the problem statement, the conceptual framework "sets the stage" for presentation of the specific research question that drives the investigation being reported. It seeks to give description of the research concepts together with the variables such as the independent variables (I.V) and dependent variable (D.V) as isolated but work in a unified system of relationships. The conceptual framework for this study is illustrated in figure 2.1.

Conceptual Framework

Independent variable   **Dependent variable**
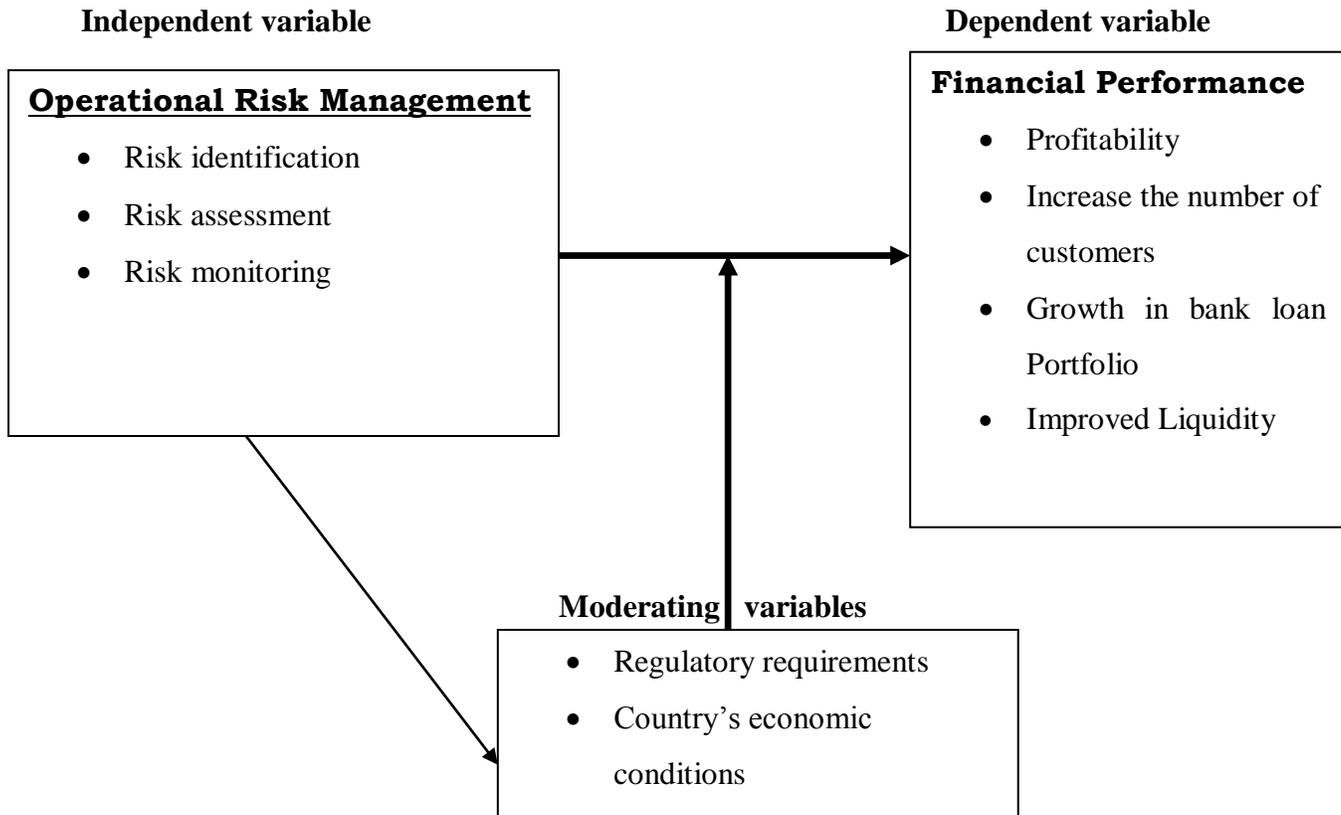
Figure 2.1: Conceptual framework
Source: Adopted from Colman (1994) and modified by the researcher

The conceptual framework shows the relationship between the independent variable and the dependent variable under the study. The models predicts that if staff manage risk effectively and efficiently then their knowledge and skills will improve, and this will reduce losses, improve liquidity, growth in bank portfolio, increase number of customers in the bank and automatically will improve on the bank's financial performance with the help of strict adherence in accordance with the regulatory requirements and economic situation of the country.

Conclusion

Basing on Uganda's financial work organizations, the studies have been made to investigate the risks that take place in these firms. This study dealt with the effectiveness of operational risk management in the banking sectors of which other studies have not covered. The study used Stanbic Bank to investigate this problem. So the need to investigate the operation risk is inevitable since most of the study made on this issue did not take more time on operational risks specially to banking industry in Uganda.

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

This chapter explained the methods and procedures that was used to conduct the study, including the research design, study population, sample size, sampling techniques, sampling method, data collection procedures, data collection methods, data collection instruments.

Research design

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

Research Approach

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

Research Strategy

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

Research Duration

The research duration involves: cross sectional studies which is a study of a particular phenomena at particular point in time, therefore considered a period of three years from 2013-2016 and data was collected from within two months (May-July 2017).

Research Classification

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

Study Area

The study focused on Stanbic Bank located on Masaka Kampala Road (Km 37 from Kampala City).

Study population

The targeted population of this study used 52 employees of Stanbic Bank as listed in the human resource manual, drawn from compliance team (4), risk team (11), loan officers (10), operations officers (10), asset and liability officers (8) and auditors (9).

Sample size

The sample size of the study was 52 respondents. Therefore, this is a census given the small number of employees. Kuthori (2006) explains that if the population is relatively small, or is better to study if in its entirety to generate full information from all the subjects.

Table3.1: Population and sampling methods

Category	Population	Sample	Sampling techniques
Compliance team	4	4	Census
Risk management team	11	11	Census
Loan officers	10	10	Census
Operation officers	10	10	Census
Asset and liability officers	8	8	Census
Auditors	9	9	Census
Total	**52**	**52**	

Source Stanbic Bank, 2015

Sampling methods

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

Demographic characteristics of the respondents

This presents an analysis and interpretation of biographic information of respondents. The researcher distributed 52 questionnaires, however only 45 were filed and returned making a responsive rate of 87%. The background information focused on gender, number of years in the organization, age group, and departments in which the respondents work, and their qualifications. Details of the findings are presented in tables 3.2 through 3.5.

Gender

The study asked respondents to state their gender and the results are indicated in table 3.2:

Table 3.2: Gender

		Frequency	Percent
Valid	Male	25	56
	Female	20	44
	Total	**45**	**100.0**

Source: primary data (2017)

From table 3.2, majority of the respondents 25(56%) were male and 20(44%) were female. Majority of the respondents were males and this implies that males had many working opportunity than females, in addition males were more qualified and willing to work with Stanbic Bank Mpigi Branch.

Age of the respondents

Having workers in wide range of age in the workplace is advantage for any organization in terms of creativity and smooth flow of the operations, therefore the study asked respondents to state their age and the results are indicated in table 3.3.

Table 3.3: Age group

		Frequency	Percent
Valid	Between 20-29	9	20
	30 - 39 Years	17	38
	40 - 49years	13	29
	Above 50	6	13
	Total	**45**	**100**

Source: primary data (2017)

From table 3.3, 9(20%) of total respondents were aged between 20-29 years of age, 17(38%) of them were aged between 30-39 years of age, 13(29%) were aged 40-49 years of age, 6(13%) above 50 years. The results obtained indicate that majority respondents were aged between 30-39 years old which implies that majority of the respondents were mature enough to provide relevant data required in the current study. In addition Stanbic Bank Mpigi Branch employs mature people since all them were above 18 years and at the same energetic to improve customer satisfaction since majority were below 50 years.

Educational Levels

The study went ahead to examine the education levels of the respondents selected in the study and results obtained are summarized in table 3.4

Table 3.4: Educational Levels

Category	Frequency	Percent
Secondary	5	12
Diploma	10	22
Degree	18	40
Master	10	22
PhD	2	4
Total	**45**	**100.0**

Source: primary data (2017)

According to table 3.4, 5(12%) had secondary leaving certificate, 10(22%) were diploma holders, 18(40%) were degree holders, 10(22%) were masters holders and 2(4%) were PhD holders. Results obtained imply that, majority respondents had Bachelor's degree which guarantees the quality of information and data obtained from the study respondents. In addition, all respondents had attained at least secondary which means that they would read and understand the questions that were sent to them and thus giving reliable and valid data.

Period of stay at Stanbic Bank Mpigi Branch

Different employees have worked with the Stanbic Bank Mpigi Branch for different time frames. So the study sought to get information on the period the selected respondents have spent dealing with Stanbic Bank Mpigi Branch. Responses obtained are summarized in table 3.5

Table 3.5: Period of stay at MTN Entebbe service center

	Frequency	Percent
Less than a year	3	6.7
1 – 3 years	9	20
4- 6 years	15	33.3
7-9 years	12	26.7
10 years and above	6	13.3
Total	**45**	**100**

Source: primary data (2017)

According to table 3.5, 3(6.7%) had worked in Stanbic Bank Mpigi Branch for less than a year, 9(20%) 1-3 years, 15(33.3%) 4-6 years, 12(26.7%) 7-9 years and 6(13.3%) 10 years and above. This implies that Stanbic Bank Mpigi Branch employs experienced people since majority 47(62.7) had worked for more than a year and this means the information they provided can be relied on since it was guided by experience of the respondents.

Methods of data
Data Collection Methods:

The study employed both the survey method to collect primary data from respondents and documentary analysis to collect secondary data.

Survey:

The study used the survey method to assess the starters of operational risk management and financial performance.

Babbic (2005) defines survey as a deliberate, well-planned research study of selected number or group of individuals with respect to one or more variables, carried out in such a way as to significantly reduce the error inherent in all social science research by adhering to scientific research principles and methodologies.

Surveys are perceived to be excellent vehicles for measuring attitudes in a large population such as the banking industry. In a survey the researcher gathers relevant data for his / her research either via a questionnaire which are printed or in electronic format or via person-to-person interviews. This study employed both questionnaires and interview method.

Documentary Review

This researcher reviewed existing literature, publicity, text books, Journals, the banks, financial reports like auditors, reports, performance reports, risk management policy and internal memos to assess the financial performance of the bank.

Data collection procedure

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

Data collection instruments
Primary data was collected using the followings instruments:

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

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

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

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

Documentary review

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

Reliability and Validity of instrument

Reliability

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

$$\alpha = \frac{k}{k-1}\left(1 - \frac{\sum \sigma_k^2}{\sigma^2}\right),$$ where $\sum \sigma_k^2$ is the sum of variances of the k parts (usually items) of

the test σ is the standard deviation of the test.

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

Validity

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

Data processing

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

Data analysis

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

Ethical Considerations

The researcher obtained consent of the potential respondents, and explained to them the purpose and nature of the research, not only to ensure that participation in the research was voluntary but also given full rights to participate. When respondents volunteered to participate in the research, they were assured of confidentiality, and the assurance of their rights to withdraw from the research especially if and when questions asked, or if the process in general tended to trigger emotional responses and affect Self- understanding

As it is increasingly advocated that "People who contribute to research as participants, informants or respondents should be given information about the research findings and outcomes" (Magga 2003), the researcher discussed draft bits of findings with key informants and promised to provide them with copies of the final report of the research.

Limitations of the study
Secrecy

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

Reluctance

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

CHAPTER FOUR

RISK IDENTIFICATION AND LIQUIDITY

Introduction

Risk identification is a crucial stage in the operational risk management process. Risk analysis is the process of identifying the different risk involved, and determining the possible outcomes of actions and /or decisions. Liquidity measures the ability of the business to meet financial obligations as they come due, without disrupting the normal, ongoing operations of the business. Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to the balance sheet (assets and liabilities) and operational liquidity refers to cash flow measures. Objective one of this study sought to examine the contribution of risk identification on liquidity at Stanbic Bank. Several questions were put to each individual respondent regarding his/her own understanding and perception of the risk identification and liquidity at Stanbic Bank. This section presents the results and interpretation of the respondents' perceptions about risk identification and financial performance.

Banking Institutions in Uganda face a variety of risk from external and internal sources that need to be assessed, a precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Andrew (1995) defined risk assessment as the identification and analysis of relevant risk to achievement of the objectives, forming a basis for determining how risk should be managed. Objective two of the study set out to evaluate the influence of risk assessment on profitability at Stanbic Bank Mpigi Branch. Several statements were put to the respondents through the self administered questionnaire and interview guide to indicate their honest opinion about their understanding of the risk assessment, analysis and profitability at Stanbic Bank Mpigi Branch. The results are presented in tables 4.1-4.13;

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

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

Table4.1: Stanbic Bank caries out comprehensive and systematic identification of its risk relating to each of its operations

Response	Frequency	Percentage
Strongly agree	26	57.8
Agree	7	15.6
Not sure	2	4.4
Disagree	6	13.3
Strongly disagree	4	8.9
Total	**45**	**100.0**

Source: Primary data

Table 4.1 shows that 26(57.1%) strongly agreed, 7(15.6%) agreed, 2(4.4%) were not sure, 6(13.3%) disagreed and 4(8.9%) strongly disagreed. The majority of the respondents 73.4% generally agreed with the statement and this means that Stanbic Bank caries out comprehensive and systematic identification of its risk relating to each of its operations. The study found out that, management of Stanbic Bank and other relevant personnel identify key risks in operations through workshops and interviews, brainstorming, use of questionnaires, and process mapping which involve identifying and mapping the core operations, processes/value chains. This is in

agreement with Cynthia (1997) who argues that, identifying risk is the best way to manage operational risk in banking institutions.

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

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

Response	Frequency	Percentage
Strongly agree	14	31.1
Agree	11	24.4
Not sure	3	6.7
Disagree	12	26.7
Strongly disagree	5	11.1
Total	**45**	**100.0**

Source: Primary data

Table 4.2 presents that 14(31.1%) strongly agreed, 11(24.4%) agreed, and 3(6.7%) were not sure 12(26.7%) disagreed and 5(11.1%) strongly disagreed. Majority of respondents 55.5% generally agreed. This implies that Stanbic Bank identifies the potential cause of operational risk. The study through interviews revealed that study risk identification is paramount for the subsequent development of viable operational risk monitoring and control. It was further revealed that, risk identification helps the Bank to meet its financial obligations as they come due, without disrupting the normal, ongoing operations of the business.

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

Deonne (2005) asserts that changes in risks should be recognized and identified in time to avoid the devastating effect in the operation of banks. The respondents were asked whether changes in risks are recognized and identified with the bank's rules and responsibilities and the responses are contained in table 4.3.

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

Response	Frequency	Percentage
Strongly agree	29	64.4
Not sure	7	15.6
Disagree	5	11.1
Strongly disagree	4	8.9
Total	**45**	**100.0**

  Source: Primary data

Table 4.3 illustrates that 29(64.4%) strongly agreed, 7(15.6%) were not sure, 5(11.1%) disagreed and 4(8.9%) strongly disagreed. Majority of the respondents 64.4% agreed and this implies that changes in risks are recognized and identified with the bank's rules and responsibilities. The study found out that effective risk identification at Stanbic Bank considers both internal factors such as the complexity of the bank's structure, the nature of the bank's activities, the quality of personnel organizational changes and employee turnover and external factors such as changes in the industry and technological advances and how these could adversely affect the achievement of the liquidity objectives of the Bank.

Rower (1997) explains that when changes in the risks are recognized and identified, then appropriate strategies can be designed to mitigate the effect which would otherwise cause a financial loss to the bank arising from non-performing loans.

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

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

Table4.4: The Bank is aware of the strengths and weaknesses of the risk management systems required by the financial institution Act 2004.

Response	Frequency	Percentage
Strongly agree	15	33.2
Agree	3	6.7
Not sure	8	17.8
Disagree	3	6.7
Strongly disagree	16	35.6
Total	**45**	**100.0**

   Source: Primary data

The table 4.4 shows that 15(33.2%) strongly agreed, 3(6.7%) agreed, 8(17.8%) were not sure, 3(6.7%) disagreed and 16(35.6%) strongly disagreed that the Bank is aware of the strengths and weaknesses of the risk management systems required by the financial institution Act 2004. Majority of the respondents disagreed with the statement and this implies that Stanbic Bank is not aware of the strengths and weaknesses of the risk management systems of the other banks and this has damaged the credibility of the bank, raising costs of deposits and forcing the bank to maintain high levels of excess liquidity in order for the bank to run.

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

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

Table4.5: Stanbic Bank has developed and applied procedures for the systematic identification of investment

Response	Frequency	Percentage
Strongly agree	13	29
Agree	15	33.3
Not sure	5	11.1
Disagree	6	13.3
Strongly disagree	6	13,3
Total	**45**	**100.0**

Source: Primary data

Table 4.5 shows that 13(29%) strongly agreed, 15(33.3%) agreed, 5(11.1%) were not sure, 6(13.3%) disagreed and 6(13.3%) strongly disagreed. Majority of the respondents 62.2% generally agreed and this implies that Stanbic Bank has developed and applied procedures for the systematic identification of investment.

Stanbic Bank quantifies operational risk through estimation of losses

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

Table4.6: Stanbic Bank quantifies operational risk through estimation of losses

Response	Frequency	Percentage
Strongly agree	17	37.8
Agree	11	24.4
Not sure	8	17.2
Disagree	9	20.6
Total	**45**	**100.0**

Source: Primary data

From table 4.6, 68(37.8%) strongly agreed, 44(24.4%) agreed, 31(17.2%) were not sure and 37(20.6%) disagreed. Majority of the respondents agreed with the statement and this implies that

Stanbic Bank quantifies operational risk through estimation of losses. Also PWC (1997) states that when Banks fail to estimate the potential loss, they directly or indirectly incur losses resulting from inadequate internal processes, people and systems.

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

Table4.7: Stanbic Bank assesses the likelihood of occurring risk on a timely basis

Response	Frequency	Percentage
Strongly agree	13	28.9
Agree	14	31.1
Not sure	3	6.7
Disagree	10	22.2
Strongly disagree	5	11.1
Total	**45**	**100.0**

Source: Primary data

The table 4.7 shows that 13(28.9%) strongly agreed, 14(31.1%) agreed, 3(6.7%) were not sure, 10(22.2%) disagreed and 5(11.1%) strongly disagreed. The majority of the respondents agreed and this implies that Stanbic Bank assesses the likelihood of occurring risk on a timely basis. The study found out that in the planning stage, the management of Stanbic Bank agrees on the most appropriate definition and number of categories to be used when assessing both likelihood and impact.

Stanbic Bank assess risk using appropriate quantitative analysis methods

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

Table4.8: Stanbic Bank assess risk using appropriate quantitative analysis methods

Response	Frequency	Percentage
Strongly agree	18	40
Agree	10	22.2
Not sure	6	13.3
Disagree	7	15.6
Strongly agree	4	8.9
Total	**45**	**100.0**

Source: Primary data

The table 4.8 shows that 18(40%) strongly agreed, 10(22%) agreed, 6(13.3%) were not sure, 7(15.6%) disagreed and 4(8.9%) strongly disagreed. The majority of the respondents agreed with the statement. This implies that Stanbic Bank assesses risk using appropriate quantitative analysis methods. The researcher through interviews with the Bank manager of Stanbic Bank, said that "*Standard deviation is one of the measures used to assess risk at Stanbic Bank*". The study also discovered that covariance of analysis is a more refined measure of assessing risk at Stanbic Bank.

All lending decisions are processed using a detailed risk analysis

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

Table4.9: All lending decisions are processed using a detailed risk analysis

Response	Frequency	Percentage
Strongly agree	22	48.9
Agree	6	13.3
Not sure	5	11.1
Disagree	5	11.1
Strongly disagree	7	15.6
Total	**45**	**100.0**

Source: Primary data

Table 4.9 shows that most respondents 22(48.9%) strongly agreed 6(13.3%) agreed, 5(11.1%) were not sure 5(11.1%) responds disagreed and 7(15.6%) strongly disagreed. Majority of the respondents agreed and this implies that all lending decisions are processed using a detailed risk analysis. It was revealed that, management at Stanbic Bank first assesses the client before he/she is given a loan and some of the considerations are collateral security and connectivity of the client. This helps to determine whether such a loan should be processed or not.

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

Table4.10: Stanbic Bank assess risk using appropriate qualitative analysis methods

Response	Frequency	Percentage
Strongly agree	20	44.5
Agree	9	20
Not sure	2	4.4
Disagree	6	13.3
Strongly disagree	8	17.8
Total	**45**	**100.0**

Source: Primary data

Table 4.10 reveals that, 20(44.5%) strongly agreed, 9(20%) agreed, those who were not sure were represented by 2(4.4%), 6(13.3%) disagreed whereas 8(17.8%) strongly disagreed. Majority of the respondents agreed and this means that Stanbic Bank assesses risk using appropriate qualitative analysis methods. The study revealed that, non-market risks are also very crucial to the firm's profitability and must be tracked. In response to this, Stanbic Bank carries out interviews with potential clients. It also requests people to come with personal information documented information such as LCI recommendation letters and national identity cards. It was revealed that, Stanbic Bank ensures that controls and policies are followed. This determines the level of severity and this goes through the process flows, self –assessment programs, and audit programs.

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

Table4.11: Stanbic Bank regularly studies and assesses its opportunities to achieve objectives

Response	Frequency	Percentage
Strongly agree	4	8.9
Agree	7	15.6
Not sure	2	4.4
Disagree	6	13.3
Strongly disagree	26	57.8
Total	**45**	**100.0**

Source: Primary data

Table 4.11 shows that 4(8.9%) strongly agreed, 7(15.6%) agreed, 2(4.4%) were not sure, 6(13.1%) disagreed and 26(57.1%) strongly disagreed. Most of the respondents thus disagreed with the statement and this means that Stanbic Bank regularly studies and assesses its opportunities to achieve objectives. The study discovered that, the bank carries out the selection of alternate mitigation strategy such as insurance, for identified risks. The study through interviews further revealed that Stanbic Bank used a combination of financial and non-financial measures, risk indicators, escalation triggers and economic capital to determine current risk levels and progress towards goals, reporting information for management to increase awareness and prioritize resources and this acts as a deter for operational risks. The Bank manager told the researcher that *"an operational risk management committee is established to heighten the awareness and prioritize resources in relation to other risk related functions which include compliance and human resources"*.

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

The respondents were asked whether Borrowers line of business records are assessed before approval of a loan and the responses are contained in table 4.12.

Table4.12: Borrowers line of business records are assessed before approval of a loan

Response	Frequency	Percentage
Strongly agree	14	31.1
Agree	11	24.4
Not sure	3	6.7
Disagree	12	26.7
Strongly disagree	5	11.1
Total	**45**	**100.0**

Source: Primary data

The table 4.12 shows that 14(31.1%) strongly agreed, 11(24.4%) agreed, and 3(6.7%) were not sure, 12 (26.7) disagreed and 5(11.1%) strongly disagree. Majority of the respondents indicated that borrowers' line of business records are assessed before approval of a loan and this helps to determine the clients with good repayment character by assessing his/her payment records.

Stanbic Bank pay much attention to customer vetting

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

Table4.13: Stanbic Bank pays much attention to customer vetting

Response	Frequency	Percentage
Strongly agree	29	64.4
Not sure	7	15.6
Disagree	5	11.1
Strongly agree	4	8.9
Total	**45**	**100.0**

  Source: Primary data

Table 4.13 shows that 29(64.4%) strongly agreed, 7(15.6%) were not sure, 5(11.1%) disagreed and 4(8.9%) strongly agreed. Most of the respondents strongly agreed and this implies that, Stanbic Bank pays much attention to customer vetting and helps to determine the trustworthy clients person who will pay back his/her obligations.

Hypothesis Testing

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

Table4.14: Correlation Analysis matrix

		Risk identification	Liquidity
Risk identification	Pearson Correlation	1	.227*
	Sig. (2-tailed)		.026
	N	180	180
Financial performance	Pearson Correlation	.227*	1
	Sig. (2-tailed)	.026	
	N	180	180

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

The correlation coefficient result revealed a positive significant relationship between risk identification and Liquidity (r=0.227*, p<0.05). This result supports the hypothesis raised in line with objective one.

Regression Analysis

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

Table4.15: Regression Analysis Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.658	.433	.415	.29983

a. Predictors: (Constant), Liquidity

Findings in the regression model summarized in table 4.15 indicate that risk identification explained up to 42% of the variance in Liquidity (Adjusted R Square= 0.415). This implies that risk identification if effectively designed and implemented have the capacity to strongly influence the Liquidity at Stanbic Bank.

Table4.16: ANOVA Test Result

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	6.328	3	2.109	23.466	.000
1	Residual	8.270	92	.090		
	Total	14.599	95			

a. Dependent Variable: Risk identification

b. Predictors: (Constant), Liquidity

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

Table4.17: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.043	.983		2.078	.040
Risk identification	.528	.234	.227	2.259	.026

a. Dependent Variable: Liquidity

According to table 4.17 above, it is proved that risk identification significantly influence risk identification which is established as (Beta value=0.227, t=2.259, P<0.05). Risk identification is believed to cause positive change that improves the overall Liquidity at Stanbic Bank.

Based on multiple linear regression model, the study sought to establish the effect of risk identification on Liquidity. The following hypothesis was therefore tested:

H0: Risk identification does not affect liquidity at Stanbic Bank

H1: Risk identification affects liquidity at Stanbic Bank.

The study found that risk identification explained a significant proportion of variance in liquidity, $R2$= .415, $F(23, 466) = 23.5$, $p<0.01$.

CHAPTER FIVE

RISK ASSESSMENT AND PROFITABILITY IN STANBIC BANK

Introduction

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

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

Banking institutions monitors other risk limits to ensure that their levels are consistent with established policies and therefore respondents were asked to state whether risk assessment the effectiveness of risk management is an integral part of routing management reporting in Stanbic Bank and their responses are contained in table 5.1

Table5.1: Risk assessment the effectiveness of risks is an integral part of routing management reporting in Stanbic Bank

Response	Frequency	Percentage
Strongly agree	18	40
Agree	9	20
Not sure	4	8.9
Disagree	6	13.3
Strongly disagree	8	17.8
Total	**45**	**100.0**

Source: Primary data

From table 5.1, 18(40.0%) strongly agreed, 9(20%) agreed, those who were not sure were presented by 4(8.9%), 6(13.3%) disagreed whereas 8(17.8%) strongly disagreed. The majority of the respondents agreed which means that risk assessment the effectiveness of risks is an integral part of routing management reporting in Stanbic Bank. The study found out that it is critical at Stanbic Bank for the risk assessment system provides immediate feedback to the management when actual risk levels depart from acceptable risk levels.

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

Control activities are the policies and procedures that help to ensure that management directives are carried out and therefore the respondents were asked to state whether the level of control is appropriate for the risk Stanbic Bank faces and their responses are contained in table 5.2

Table5.2: The level of control is appropriate for the risk Stanbic Bank faces

Response	Frequency	Percentage
Strongly agree	18	40
Agree	12	26.6
Not sure	4	8.9
Disagree	7	15.6
Strongly disagree	4	8.9
Total	**45**	**100.0**

Source: Primary data

The table 5.2 shows that 18(40%) strongly agreed, 12(26.6%) agreed, 4(8.9%) were not sure, 7(15.6%) disagreed and 4(8.9%) strongly disagreed. The majority of the respondents agreed with the statement and this implies that the level of control is appropriate for the risk Stanbic Bank faces. The study revealed that the level of control is appropriate it helps to ensure that necessary actions are taken to address risks to the achievement of the bank's objectives. Respondents told the researcher that control activities occur throughout the bank at all levels and in all functions and this has helped to minimize the occurrence of operational risk.

Stanbic Bank carries out loan reviews

The study asked respondents to state whether Stanbic Bank carries out loan reviews and their responses are contained in table 5.3.

Table5.3: Stanbic Bank carries out loan reviews

Response	Frequency	Percentage
Strongly agree	20	44.4
Agree	8	17.8
Not sure	5	11.1
Disagree	5	11.1
Strongly disagree	7	15.6
Total	**45**	**100.0**

Source: Primary data

From table 5.3 above, most respondents 20(44.4%) strongly agreed 8(17.8%) agreed, 5(11.1%) were not sure 5(11.1%) responds disagreed and 7(15.6%) strongly disagreed. Majority of the respondents agreed and this implies that Stanbic Bank carries out loan reviews.

Communication process within Stanbic Bank adequately supports effective management of risk

Risk assessment goes hand in hand with reporting and therefore, the respondents were asked to state whether communication process within Stanbic Bank adequately supports effective management of risk and the responses are contained in table 5.4.

Table5.4: Communication process within Stanbic Bank adequately supports effective management of risk

Response	Frequency	Percentage
Strongly agree	20	44.4
Agree	7	15.5
Not sure	2	4.5
Disagree	8	17.8
Strongly disagree	8	17.8
Total	**45**	**100.0**

Source: Primary data

From table 5.4, 20(44.4%) strongly agreed, 7(15.5%) agreed, those who were not sure were presented by 2(4.5%), 32(17.8%) disagreed whereas 8(17.8%) strongly disagreed. The majority of the respondents agreed with statement and this means that Communication process within Stanbic Bank adequately supports effective management of risk. The study revealed that risk assessment of the bank's risk always provides to management with red flags whenever the risk levels are beyond those permitted as specified in the operational risk management guidelines and corrective measures are normally undertaken to ensure that the risks are brought back in line with the guideline. And this depends on the strength of the bank's communication and reporting systems.

Stanbic Bank response to risk includes action plans for implementing decision

The respondents were asked to state whether Stanbic Bank response to risk includes action plans for implementing decision and employers and their responses are presented in table 5.5.

Table5.5: Stanbic Bank response to risk includes action plans for implementing decision

Response	Frequency	Percentage
Strongly agree	26	57.8
Agree	7	15.6
Not sure	2	4.4
Disagree	6	13.3
Strongly disagree	4	8.9
Total	**45**	**100.0**

Source: Primary data

The table 5.5 shows that 26(57.1%) strongly agreed, 7(15.6%) agreed, 2(4.4%) were not sure, 6(13.1%) disagreed and 4(8.9%) strongly disagreed. Most of the respondents agreed with the statement and this means that Stanbic Bank response to risk includes action plans for implementing decision.

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The worrying signals arising out assessment are taken serious by the compliance manager

The respondents were asked whether the worrying signals arising out assessment are taken

serious by the compliance manager and the responses are contained in table 5.6.

Table5.6: The worrying signals arising out assessment are taken serious by the compliance manager

Response	Frequency	Percentage
Strongly agree	13	28.9
Agree	9	20
Not sure	5	11.1
Disagree	12	26.7
Strongly disagree	6	13.3
Total	**45**	**100.0**

 Source: Primary data

The table 5.1.6 shows that 13(28.9%) strongly agreed, 8(20%) agreed, and 5(11.1%) were not

sure, 12(26.7%) disagreed and 6(13.3%) strongly disagreed. This implies that the worrying

signals arising out assessment are taken serious by the compliance manager.

Stanbic Bank has built a data base for defaulting customers

The reason why many banks fail is defaulting customers and therefore, respondents were asked

to state whether Stanbic Bank has built a data base for defaulting customers and the responses

are contained in table 5.7.

Table5.7: Stanbic Bank has built a data base for defaulting customers

Response	Frequency	Percentage
Strongly agree	29	64.4
Not sure	7	15.6
Disagree	5	11.1
Strongly disagree	4	8.9
Total	**45**	**100.0**

 Source: Primary data

The table 5.7 shows that 29(64.4%) strongly agreed, 7(15.6%) were not sure, 5(11.1%) disagreed and 4(8.9%) strongly disagreed. Most of the respondents agreed and this implies that Stanbic Bank has built a data base for defaulting customers. The study found out management of Stanbic Bank has expanded its approach to shareholder value by integrating a dynamic concept of risk into its existing focus on growth and return.

Exposure ceiling is observed for each of the clients
The study asked respondents to state whether exposure ceiling is observed for each of the clients and the responses are contained in table 5.8.

Table5.8: Exposure ceiling is observed for each of the clients

Response	Frequency	Percentage
Strongly agree	3	6.7
Agree	3	6.7
Not sure	8	17.8
Disagree	15	33.3
Strongly disagree	16	35.5
Total	**45**	**100.0**

Source: Primary data

The table 5.8 shows that 3(6.7%) strongly agreed, 3(6.7%) agreed, 8(17.8%) were not sure, 15(33.3%) disagreed and 16(35.5%) strongly disagreed. Majority of the respondents disagreed with the statement and this implies that exposure ceiling is observed for each of the clients. The study through interviews also found out that the management of Stanbic Bank has closely linked the operational risk management, achievement of corporate goals and reduced volatility of outcomes to drive financial performance.

Stanbic Bank Mpigi Branch trucks the non-performing loans every year

The study asked respondents were to state whether Stanbic Bank trucks the non-performing

loans every year and the responses are contained in table 5.9.

Table5.9: Stanbic Bank trucks the non-performing loans every year

Response	Frequency	Percentage
Strongly agree	18	40
Agree	10	22.2
Not sure	5	11.2
Disagree	6	13.3
Strongly disagree	6	13,3
Total	**45**	**100.0**

  Source: Primary data

The table 5.9 shows that 18(40%) strongly agreed, 10(33.3%) agreed, 5(11.2%) were not sure,

6(13.3%) disagreed and 6(13.3%) strongly disagreed. Majority of the respondents agreed and

this implies that Stanbic Bank trucks the non-performing loans every year.

Hypothesis Testing

In order to examine the nature of relationship between risk assessment and performance,

correlation, regression, Anova and coefficients tests were performed on the data collected. The

results are summarized in the proceeding tables 5.10- 6.14.

Table5.10 Correlation Analysis Matrix

		Risk assessment	Reduction in non-performing loans
Risk risk assessment	Pearson Correlation	1	0.754**
	Sig. (2-tailed)		0.000
	N	180	180
performance	Pearson Correlation	0.754**	1
	Sig. (2-tailed)	0.000	
	N	180	180

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

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

Regression Analysis

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

Table5.11 Regression Analysis Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.754	0.568	0.563	0.47784

a. Predictors: (Constant), risk assessment

The regression analysis result in table 5.11 revealed that risk assessment contributes up to 56.3% to profitability in Stanbic Bank (Adjusted R square= 0.563, SEE = 0.47784). This means the remaining percentage (43.7%) is contributed by other factors. It also implies that when risk assessment is utilized, reduction in performance will also be achieved.

ANOVA Analysis

ANOVA analysis was performed to test the hypothesis that risk assessment significantly relate with performance. The results are summarized in table 5.12 below:

Table5.12: **Analysis of Variance**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.499	1	28.499	124.812	0.000b
	Residual	21.691	95	0.228		
	Total	50.190	96			

a. Dependent Variable: Profitability
b. Predictors: (Constant), risk assessment

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

Table 5.13 Coefficient Test Result

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

a. Dependent Variable: Performance

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

CHAPTER SIX

RISK MONITORING TO ENSURE REDUCTION IN NON-PERFORMING LOANS

Risk management has enabled Stanbic Bank to increase its profitability

The study asked respondents to state whether Risk management has enabled Stanbic Bank to

increase its profitability and the responses are contained in table 6.1.

Table6.1: Risk management has enabled Stanbic Bank to increase its profitability

Response	Frequency	Percentage
Strongly agree	10	22.2
Agree	16	35.6
Disagree	10	22.2
Strongly disagree	9	20
Total	**45**	**100.0**

Source: Primary data

Table 6.1, presents that 10 (22.2%) strongly agreed, 16(35.6%) agreed whereas 10(22.2%)

disagreed and 9(20%) strongly disagreed. Majority of the respondents agreed and this implies

that Risk management has enabled Stanbic Bank to increase its profitability.

Risk management has helped Stanbic Bank to improve its insolvency

The study asked respondents to state whether Risk management has helped Stanbic Bank to

improve its insolvency and their responses are contained in table 6.2.

Table6.2: Risk management has helped Stanbic Bank to improve its insolvency

Response	Frequency	Percentage
Strongly agree	10	22.2
Agree	18	40
Not sure	3	6.7
Disagree	9	20
Strongly disagree	5	11.1
Total	**45**	**100.0**

Source: Primary data

Results in table 6.2 indicates that 10 (22.2%) strongly agreed, 18 (42.2%) agreed and 3(6.7%) were not sure, 9 (20%) Disagreed and 5(11.1%) strongly disagreed. Majority of the respondents agreed and this implies that Risk management has helped Stanbic Bank to improve its insolvency.

Stanbic Bank has adequately improved its overall Profitability in the past five years.
The study asked respondents to state whether Stanbic Bank has adequately improved its overall Profitability in the past five years and the responses are contained in table 6.3.

Table6.3: Stanbic Bank has adequately improved its overall Profitability in the past five years.

Response	Frequency	Percentage
Strongly agree	17	37.8
Agree	11	24.4
Not sure	8	17.8
Disagree	9	20
Total	**45**	**100.0**

Source: Primary data

From the table 6.3, 17(37.8%) strongly agreed, 11(24.4%) agreed, 8(17.8%) were not sure and 9(20%) disagreed. Majority of the respondents agreed with the statement that and this implies that Stanbic Bank has adequately improved its overall Profitability in the past five years.

The emphasis on continuous review and evaluation of risk helped to improve performance in Stanbic Bank
The respondents were asked whether the emphasis on continuous review and evaluation of risk helped to improve performance in Stanbic Bank and the responses are contained in table 6.4.

Table6.4: The emphasis on continuous review and evaluation of risk helped to improve performance in Stanbic Bank

Response	Frequency	Percentage
Strongly agree	13	28.9
Agree	11	24.4
Not sure	3	6.7
Disagree	12	26.7
Strongly disagree	6	13.3
Total	**45**	**100.0**

   Source: Primary data

The table 6.4 shows that 13(28.9%) strongly agreed, 11(24.4%) agreed, and 3(6.7%) were not sure, 12 (26.7) disagreed and 6(13.3%) strongly disagree. This implies that the emphasis on continuous review and evaluation of risk helped to improve performance in Stanbic Bank.

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

The study asked to state whether Risk management has enabled Stanbic Bank to minimize the level losses and the responses are contained in table 6.5.

Table6.5: Risk management has enabled Stanbic Bank to minimize the level losses

Response	Frequency	Percentage
Strongly agree	29	64.4
Not sure	7	15.6
Disagree	5	11.1
Strongly disagree	4	8.9
Total	**45**	**100.0**

   Source: Primary data (2017)

Table 6.5 shows that 29(64.4%) strongly agreed, 7(15.6%) were not sure, 5(11.1%) disagreed and 4(8.9%) strongly agreed. Most of the respondents agreed and this implies that Risk management has enabled Stanbic Bank to minimize the level losses.

Risk management has helped Stanbic Bank to improve its liquidity
The respondents were asked to state whether Risk management has helped Stanbic Bank to improve its liquidity and the responses are contained in table 6.6

Table 6.6: Risk management has helped Stanbic Bank to improve its liquidity

Response	Frequency	Percentage
Strongly agree	3	6.7
Agree	3	6.7
Not sure	8	17.8
Disagree	15	33.3
Strongly disagree	16	35.5
Total	**45**	**100.0**

 Source: Primary data (2017)

The table 6.6 reveals that 3 (6.7%) strongly agreed, 3(6.7%) agreed, 8(17.8%) were not sure, 15(33.3%) disagreed and 16 (35.5%) strongly disagreed. Majority of the respondents disagreed with the statement and this implies that, Risk management has helped Stanbic Bank to improve its liquidity.

Stanbic Bank has been registering low level of non-performing loans
The respondents were asked to state whether Stanbic Bank has been registering low level of non-performing loans and the responses are contained in table 6.7.

Table6.7: Stanbic Bank has been registering low level of non-performing loans

Response	Frequency	Percentage
Strongly agree	3	6.7
Agree	3	6.7
Not sure	8	17.8
Disagree	15	33.3
Strongly disagree	16	35.5
Total	**45**	**100.0**

 Source: Primary data

The table 6.7 reveals that 3(6.7%) strongly agreed, 3(6.7%) agreed, 8(17.8%) were not sure, 15(33.3%) disagreed and 16(35.5%) strongly disagreed. Majority of the respondents disagreed with the statement and this means that Stanbic Bank has been registering low level of non-performing loans.

There has been an incredible growth in earnings in this year in Stanbic Bank
The respondents were asked whether there has been an incredible growth in earnings in this year in Stanbic Bank and the responses are contained in table 6.8.

Table6.8: There has been an incredible growth in earnings in this year in Stanbic Bank

Response	Frequency	Percentage
Strongly agree	13	28.9
Agree	15	33.3
Not sure	5	11.2
Disagree	6	13.3
Strongly disagree	6	13.3
Total	**45**	**100.0**

 Source: Primary data

The table 6.8 shows that 13(28.9%) strongly agreed, 15(33.3%) agreed, 5(11.2%) were not sure, 6(13.3%) disagreed and 6(13.3%) strongly disagreed. Majority of the respondents agreed and this implies that there has been an incredible growth in earnings in this year in Stanbic Bank.

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

The respondents were asked to state whether application risk management techniques adequately Reduced risk on loan portfolio in Stanbic Bank and the responses are contained in table 6.10.

Table6.9: Application of risk management techniques adequately reduced risk on loan portfolio in Stanbic Bank

Response	Frequency	Percentage
Strongly agree	17	37.8
Agree	11	24.4
Not sure	8	17.8
Disagree	9	20
Total	**45**	**100.0**

Source: Primary data

From the table 5.9, 14(37.8%) strongly agreed, 11(24.4%) agreed, 8(17.8%) were not sure and 9(20%) disagreed. Majority of the respondents agreed with the statement and this implies that application risk management techniques adequately Reduced risk on loan portfolio in Stanbic Bank.

Required loan reports are forwarded to from time to time

The respondents were asked to state whether required loan reports are forwarded to from time to

time and the responses are contained in table 6.10.

Table6.10: Required loan reports are forwarded to from time to time

Response	Frequency	Percentage
Strongly agree	13	31.1
Agree	9	20
Not sure	6	13.3
Disagree	12	26.7
Strongly disagree	5	11.1
Total	**45**	**100.0**

   Source: Primary data

The table 6.10 shows that 13(31.1%) strongly agreed, 9(20%) agreed, and 6(13.3%) were not

sure, 12(26.7%) disagreed and 5(11.1%) strongly disagreed. This implies that required loan

reports are forwarded to from time to time.

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

The respondents were asked to state whether credit supervisors do not review bank loan portfolio

of the branch in Stanbic Bank and their responses are contained in table 6.11.

Table6.11: Credit supervisors do not review the bank loan portfolio of the branch in Stanbic Bank

Response	Frequency	Percentage
Strongly agree	18	40
Agree	12	26.6
Not sure	4	8.8
Disagree	7	15.6
Strongly disagree	4	8.9
Total	**45**	**100.0**

   Source: Primary data

The table 6.11 shows that 18(40%) strongly agreed, 12(26.6%) agreed, 4(8.8%) were not sure, 7(15.6%) disagreed and 4(8.9%) strongly disagreed. The majority of the respondents agreed with the statement and this implies that credit supervisors do not review bank loan portfolio of the branch in Stanbic Bank.

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

The respondents were asked to state whether credit chief manager of Stanbic Bank Mpigi Branch ensures that bank loan portfolio reviewed is completed on a timely basis and their responses are contained in table 6.12

Table6.12: credit chief manager of Stanbic Bank ensures that bank loan portfolio reviewed is completed on a timely basis

Response	Frequency	Percentage
Strongly agree	18	40
Agree	12	26.6
Not sure	4	8.8
Disagree	7	15.5
Strongly disagree	4	8.9
Total	**45**	**100.0**

   Source: Primary data

The table 6.12 shows that 18(40%) strongly agreed, 12(26.6%) agreed, 4(8.8%) were not sure, 7(15.5%) disagreed and 4(8.9%) strongly disagreed. The majority of the respondents agreed with the statement and this implies that Chief Manager of Stanbic Bank ensures that portfolio reviewed is completed on a timely basis.

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

The respondents were asked to state whether Loans are not reviewed and classified on a quarterly basis by the branches and their responses are contained in table 6.13.

Table 6.13: Loans are not reviewed and classified on a quarterly basis by the branches

Response	Frequency	Percentage
Strongly agree	18	40
Agree	12	26.6
Not sure	4	8.8
Disagree	7	15.5
Strongly disagree	4	8.9
Total	**45**	**100.0**

Source: Primary data

The table 6.13 shows that 18(40%) strongly agreed, 12(26.6%) agreed, 4(8.8%) were not sure, 7(15.5%) disagreed and 4(8.9%) strongly disagreed. The majority of the respondents agreed with the statement and this implies that loans are not reviewed and classified on a quarterly basis by the branches.

Loans are not graded according to objectives criteria of bank

The respondents were asked to state whether Loans are not graded according to objectives criteria of bank of and their responses are contained in table 6.14.

Table 6.14: Loans are not graded according to objectives criteria of bank

Response	Frequency	Percentage
Strongly agree	18	40
Agree	12	26.6
Not sure	4	8.8
Disagree	7	15.5
Strongly disagree	4	8.9
Total	**45**	**100.0**

Source: Primary data

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The table 6.14 shows that 18(40%) strongly agreed, 12(26.6%) agreed, 4(8.8%) were not sure, 7(15.5%) disagreed and 4(8.9%) strongly disagreed. The majority of the respondents agreed with the statement and this implies that Loans are not graded according to objectives criteria of bank of. The study discovered that intellectual simulation boosts the morale of the team members, improving quality of output and thus enhancing goal attainment.

Hypothesis Testing

In order to examine the nature of relationship between risk monitoring and reduction in non-performing loans, correlation, regression, Anova and coefficients tests were performed on the data collected. The results are summarized in the proceeding tables 6.10- 6.14.

Table6.15 Correlation Analysis Matrix

		Risk monitoring	Reduction in non-performing loans
Risk monitoring	Pearson Correlation	1	0.754**
	Sig. (2-tailed)		0.000
	N	180	180
Reduction in non-performing loans	Pearson Correlation	0.754**	1
	Sig. (2-tailed)	0.000	
	N	180	180

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

The correlation result revealed a positive significant relationship between risk monitoring and reduction in non-performing loans (r = 0.563**, p<0.05). This implies that risk monitoring have the capacity to improve on the reduction in non-performing loans. It is suggested that utilizing risk monitoring results into reduction in non-performing loans.

Regression Analysis

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

Table6.16 Regression Analysis Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.754	0.563	0.55	0.47784

a. Predictors: (Constant), risk monitoring

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

ANOVA Analysis

ANOVA analysis was performed to test the hypothesis that risk monitoring significantly relate with reduction in non-performing loans. The results are summarized in table 5.12 below:

Table6.17: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.499	1	28.499	124.812	0.000b
	Residual	21.691	95	0.228		
	Total	50.190	96			

a. Dependent Variable: reduction in non-performing loans

b. Predictors: (Constant), risk Monitoring

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

Table .6.18 Coefficient Test Result

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

b. Dependent Variable: reduction in non-performing loans

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

HARMONIZATION OF OPERATIONAL RISK MANAGEMENT AND FINANCIAL PERFORMANCE IN STANBIC BANK MPIGI BRANCH

Introduction

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

Operational risk management

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

This study has defined operational risk as the risk of losses resulting from inadequate or failed internal processes, people and system or from external events, it is divided into those losses that are expected and those that are unexpected. The banking sector in Uganda has been facing challenges related to operational risk management and thus leading the breakdown of some banks for example the Green Land Bank and the Crane Bank.

Also according to Bloom & Galloway (199) operational risk is not a new risk, it is significant and maybe growing, virtually every catastrophic financial institution loss that has taken place during the past 20 years. Example of operation risk occurred in the past years; a bond trader of Daiwa Bank in New York had caused and hidden losses of USD 1.1 billion through non-

compliant transactions and scam deals. Daiwa did not have any appreciable management controls or even the simplest internal control that could have immediately expose the fraudulent transactions.

Globalization and new technology have provided banking industry with profit making opportunities but have also made it more vulnerable to operational risk, (Bloom & Galloway, 1999). They also suggested that risks other than credit, interest and market risks can be substantial. The committee identifies the following examples of the new and growing risks faced by banks; the greater use of highly automated technology has the potential to transform risk from manual processing errors to system failure risks as greater reliance is placed on globally integrated systems. The growth of e-commerce brings potential risk such as internal and external frauds and systems security issues that are not fully understood. The emergence of banks acting as large volume service providers creates the need for continual maintenance of high grade internal controls and backup systems.

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

Financial performance
The financial performance assessment is devoid of a multitude of options and methodologies despite critical importance of financial sustainability. Though an ambition for sustainable

institutions has been often articulated, there was also an opinion that most financial institutions working in this field have been unsustainable.

The study found out that a system of effective operational risk management is a critical component of organization's success and a foundation for the financial performance and this means that, ineffective operational risk management result in of financial information. This is supported by (Frosdick, 1997) who states that, the recent rash of corporate failures and accounting frauds in financial performance are mostly preceded by a failure in a company's internal financial control structures.

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

Operational Risk Management and Financial performance
Mitchel (1999), on his study support the argument brought in by this study that operational risk management at Stanbic Bank influence its liquidity, profitability, and reduction of non-performing loans through enhanced risk management practices. The study discovered that risk identification, assessment and risk assessment are the largest contributor towards risk management while budgeting and strategic planning are indispensable players in managing risk which affect the bank's profitability. Williamson (2004) also revealed that a year-to-year cost

income ratio, equity to total assets ratio, total asset growth ratio and ratio of loan loss reserve to gross loans positively influences the likelihood of financial distress in the coming year.

Williamson (2004) further stated that some operational risk management practices do have significant effect on financial performance more than others i.e. the existence of operational risk management policy and the integration of risk management in setting of organizational objectives were considered to be the key risk management practices that had a direct effect on financial performance. This means that although there are other determinants of performance not included in the study, Stanbic Bank can improve their performance by focusing on developing strong operation risk management policies and integrating risk management in the process of setting achievable organizational objectives.

The results for correlation analysis between risk identification and liquidity showed that operation risk identification was positively related to financial performance and the relationship was significant, (r=0.227*, p<0.05). The study findings are supported by (Frosdick, 1997) who found that risk identification was positively and significantly related to liquidity. The study findings also were corroborated by Brown (2014) who states that risk identification was related with liquidity in the case of financial institutions in Tanzania. However, he also argued that the regulatory and institutional framework has improved significantly over the years yet still the banking sector in Uganda and Stanbic Bank in particular is faced with lots of challenges including extensive errors, defaulting, fraud and malpractices.

The study results for ANOVA indicated that risk identification was significantly related to liquidity at Stanbic Bank. However, these results are in contrast with (Frosdick, 1997) whose

ANOVA findings showed that there was not a significant relationship between risk identification and to liquidity in microfinance institutions in Nigeria.

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

Risk assessment and profitability at Stanbic Bank
The study investigated the contribution of risk assessment on financial performance at Stanbic Bank. The results for correlation analysis between Risk assessment and profitability showed that risk assessment was positively related to profitability at Stanbic Bank and the relationship was significant, (r = 0.280, p<0.05). These are supported by correlation results by (Frosdick, 1997) who found that the relationship between risk assessment and profitability was positively correlated and statistically significant. Thus, there was significant relationship between risk assessment and profitability at Stanbic Bank.

The study results for multiple linear regression showed that risk assessment significantly predicted financial performance, (Beta value=0.280, t=4.408, P<0.05). This finding reveals that risk assessment had a positive and significant effect on financial performance. This study result

suggested that a unit improvement in risk assessment would lead to 0.074 units increase in financial performance at Stanbic Bank.

Risk monitoring and reduction of no-performance loans at Stanbic Bank .
The study sought to examine how risk monitoring enhances the reduction of non-performing loans at Stanbic Bank. The results for correlation analysis between risk monitoring and reduction of non-performing loans showed that risk monitoring was positively related with reduction of non-performing loans and the relationship was significant, $r = 0.754**$, $p<0.05$.

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

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

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

The regression confidents of the three objectives represented by adjusted R^2 and the average were considered in order to reach on the conclusion.

The adjusted R^2 for each objective is presented as below:

Risk identification and liquidity   =   0.415

Risk assessment and profitability   =   0.074

Risk monitoring and reduction of non-performing loans   =   0.563

The average =   0.415+ 0.74+ 0.563

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= 0.573 or 57%

Since the average results are positive implies that, there is a positive significance relationship between operational risk management and financial performance at Stanbic Bank. The average results of adjusted R^2 of 57% also means that a unit increase in operational risk management leads to 57% increase on financial performance at Stanbic Bank.

CHAPTER EIGHT

SUMMARY, CONCLUSION AND RECOMMEDATIONS

Introduction

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

Summary of findings

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

Contribution of risk identification to liquidity

As discussed in chapter four, most of the respondents indicated that Stanbic Bank carries out comprehensive and systematic identification of its risk relating to each of its operations (basing on 72.7% agree rate), Stanbic Bank identifies the potential cause of operational risk (basing on 55.5% agree rate), changes in risks are recognized and identified with the bank's rules and responsibilities (basing on 64.4% agree rate), Stanbic Bank is aware of the strengths and

weaknesses of the risk management systems of the other banks (basing on 40% agree rate), Stanbic Bank has developed and applied procedures for the systematic identification of investment (basing 62.2% agree rate) and Stanbic Bank quantifies operational risk through estimation of losses (basing on 62% agree rate).

Risk assessment and analysis and profitability

As reflected in chapter five, majority of the respondents indicated that Stanbic Bank assesses the likelihood of occurring risk on a timely basis (basing on 59.9% agree rate), Stanbic Bank assess risk using appropriate quantitative analysis methods (basing on 62% agree rate), all lending decisions are processed by a detailed analysis of risk (basing on 63% agree rate), Stanbic Bank assess risk using appropriate qualitative analysis methods (basing on 64.4% agree rate), Borrowers line of business records are assessed before approval of a loan (basing on 56% agree rate) and Stanbic Bank pay much attention on customer vetting (basing on 64.4% agree rate). However, the study also revealed that Stanbic Bank does not regularly study and assess its opportunities to achieve objectives (basing on 70.2% disagree rate).

Risk monitoring and reduction in non-performing loans

As discussed in chapter six, most respondents indicated that risk assessment the effectiveness of risks is an integral part of routing management reporting in Stanbic Bank (basing on 60% agree rate), the level of control is appropriate for the risk Stanbic Bank faces (basing on 66.6% agree rate), Stanbic Bank carries out loan reviews (basing on 62.1.% agree rate), Communication process within Stanbic Bank adequately supports effective management of risk (basing on 59.9% agree rate), Stanbic Bank response to risk includes action plans for implementing decision

(basing on 731% agree rate), the worrying signals arising out assessment are taken serious by the compliance manager (basing on 51.1% agree rate), Stanbic Bank has built a data base for defaulting customers (basing on 64.4% agree rate), exposure ceiling is observed for each of the clients (basing on 68.9% agree rate) and Stanbic Bank trucks the non-performing loans every year (basing on 62.2% agree rate).

Financial performance at Stanbic Bank.

The study ought to establish the level of performance at Stanbic Bank and according to chapter seven, majority of the respondents indicated that risk management has enabled Stanbic Bank to increase its profitability (basing on 57.8% agree rate), Risk management has helped Stanbic Bank to improve its insolvency (basing on 65% agree rate), Stanbic Bank has adequately improved its overall Profitability in the past five years (basing on 62% agree rate), the emphasis on continuous review and evaluation of risk helped to improve performance in Stanbic Bank (basing on 55.5% agree rate), risk management has enabled Stanbic Bank to minimize the level losses (basing on 64.4% agree rate), there has been an incredible growth in earnings in this year in Stanbic Bank (basing on 62.2% agree rate),   application risk management techniques adequately Reduced risk on loan portfolio in Stanbic Bank (basing on 63% agree rate), required loan reports are forwarded time to time (basing on 51.1% agree rate), chief manager of Stanbic Bank ensures that portfolio reviewed is completed on a timely basis (basing on 67% agree rate), loans are not reviewed and classified on a quarterly basis by the branches (basing on 66.7% agree rate) and loans are not graded according to objectives criteria of bank (basing on 67% agree rate). The study further revealed that Stanbic Bank has been registering low level of non-performing loans (basing on 68.9% agree rate).

Conclusion

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

The results from the study revealed that there is a significant positive relationship between operational risk management and financial performance in Stanbic Bank. The findings are consistent with the view that operational risk management is a management function that is critical for proper financial performance.

The study through interviews further revealed that, the monitoring system of Stanbic Bank is weak and this has caused some losses to the Bank.

Recommendations

Basing on the study findings therefore, the researcher recommended that:

Management of Stanbic Bank should tighten its operational risk management systems in order to continue improving its financial performance.

Stanbic Bank should regularly study and assess its opportunities to achieve its financial objectives. The Bank should also improve on its monitoring system in order to avoid some losses.

Areas for further study

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

iv.   Internal financial controls and financial performance of Stanbic Bank.

v.   Credit risk management and profitability of commercial Banks in Uganda

vi.   Liquity risk management and financial performance of Stanbic Bank.

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APPENDIX I

QUESTIONNAIRE FOR THE RESPONDENTS

I am a post-graduate student in the Department of Accounting, Nkumba university Uganda, carrying out a research on the topic, ***"Operational Risk Management and Financial Performance of Banking industry in Uganda: A case study of Stanbic Bank"*** in partial fulfillment of the requirements for the award of Masters of Business Administration (Accounting). It is in relation to this, that I request you to kindly complete the attached questionnaire. I assure you that the information to be supplied would be used in strict confidence and for no purpose other than that of the research work.

Thank you for sparing your precious.

Yours faithfully,

Mr. Lukwago Emmanuel.

SECTION A: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

Gender (Please tick): _____ (1) male

_____ (2) female

Age of respondents

20-29

30-39

40-49

50 years and above

Qualification under education discipline (please specify):

1. Certificate _____

2. Diploma _____

3. Bachelors_____

4. Masters_____

5. Others (specify)……………….....

How long have worked with Stanbic Bank

1. Less than/ below one year ☐

2. 1-4 years ☐

3. 4-7years ☐

4. 8-11 years ☐

5. 12 years and above ☐

Please choose (by ticking) only one option that suits your level of agreement or disagreement

for each of the following statements below:

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

SECTION B: Risk Identification enhances Liquidity at Stanbic Bank Mpigi Branch

	Risk Identification					
No.	Question	5	4	3	2	1
1.	Stanbic Bank carries out a systematic identification of its risk relating to each of its operations					
2.	Stanbic Bank identifies the potential causes of operational risk.					
3.	Changes in risk are recognized and identified with the Bank's rules and responsibilities.					
4.	Stanbic Bank is aware of the strengths and weaknesses of the risk management systems of the other banks.					
5.	Stanbic Bank has developed and applied procedures for the systematic identification of investment.					
6	Stanbic Bank quantifies operational risk through estimation of losses					
7.	Stanbic Bank assesses the likelihood of occurring risk on a timely basis.					
8.	Stanbic Bank asses risk using appropriate quantitative analysis methods.					
9	All lending decisions are processed using a detailed risk analysis					
10.	Stanbic Bank asses risk using appropriate qualitative analysis methods.					
9.	Stanbic Bank regularly study and asses its opportunities to					

	achieve objectives.					
10	Borrowers line of business records are assessed before approval of a loan					
11	Stanbic Bank pay much attention on customer vetting					
	Section C: assessment and analysis of operational risk in Stanbic					
1.	Risk assessment the effectiveness of risk management is an integral part of routine management reporting in Stanbic Bank.					
2.	The level of control is appropriate for the risk Stanbic Bank faces.					
	Stanbic Bank carries out loan reviews					
3.	Communication process within Stanbic Bank adequately supports effective management of risk.					
4.	Stanbic Bank response to risk includes action plans for Implementing decision.					
5	The worrying signals arising out assessment are taken serious by the compliance manager					
6	Stanbic Bank has built a data base for defaulting customers					
7	Exposure ceiling is observed for each of the clients					
8	Stanbic Bank trucks the non- performing loans every year					

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

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

9.	Credit supervisor do not review portfolio of the branch in Stanbic Bank.					
10.	Chief manager of Stanbic Bank ensures that portfolio reviewed is completed on a timely basis.					
11.	Loans are not reviewed and classified on a quarterly basis by the branches.					
12.	Loans are not graded according to objectives criteria of bank of Uganda.					
13.	There is a valuable feedback on the effectiveness of bank's loan.					
14.	All officers handling the loan are qualified.					
15.	Loan officers and the managers fail to adhere to loan policies and procedures when engaged in lending activities.					

Appendix II: Interview guide

    i.   How long have you been in Stanbic Bank?

    ii.   How does Stanbic Bank manage its operational risk

    iii.   How Stanbic Bank Uganda has has identified the degree of risk to enhance liquidity?

    iv.   How does Stanbic Bank analyze its operational risk to ensure profitability?

    v.   How has Stanbic Bank monitored operational risk to enhance the reduction in non-performing loans?

    vi.   Does Stanbic Bank quantify operational risk through estimation of losses?

    vii.   Does Stanbic Bank asses risk using appropriate quantitative analysis methods?

    viii.   Are all lending decisions are processed by a detailed analysis of risk?

    ix.   Does Stanbic Bank respond to risk?

    x.   Does risk management enable Stanbic Bank to increase its profitability?

Appendix III. Documentary Review

    i.   Textbooks,

   ii.   Journals

  iii.   Stanbic Bank Uganda Reports

  iv.   Periodicals

   v.   Conference proceedings

  vi.   Dissertations

 vii.   Internet