

**RISK EXPOSURE AND FINANCIAL PERFORMANCE OF THE BANKING INDUSTRY IN
UGANDA: A CASE STUDY OF BARCLAYS BANK UGANDA LIMITED – NDEEBA
BRANCH KAMPALA.**

BY

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OCTOBER, 2018

DECLARATION

I declare that this Dissertation entitled “*Risk Exposure and financial Performance of the Banking Sector in Uganda*” is my original work and has never been submitted for any award of degree in any university or institution and I acknowledge the primary and secondary sources that I used in its compilation. I have included explicit references to the citation of the work of writers.

Signature

Date.....

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APPROVAL

This is to certify that this dissertation has been submitted for examination with my approval as a university supervisor.

Signed Date.....

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Supervisor

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DEDICATION

I dedicate this research to my beloved daughter Erica Arinda

You have been my strength and inspiration while undertaking this study Program

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LIST OF ACRONYMS

BOU	Bank of Uganda
ROA	Return on Assets
CAR	Capital adequately Ratio
ISO	International standardization organization
KYC	Know your customers

OPERATIONAL DEFINITIONS

Risk; a concept that denotes a potential negative impact to some characteristic of value that may arise from a future event

Risk exposure; a quantified loss potential to a business.

Liquidity risk exposure; it is the exposure of the banks financial conditions to sudden need for resources that may be caused by an unusual or unexpected flow of financial resources into the bank. This financial need may have a negative impact on the financial resources in the bank

Market risk exposure; is the exposure of the banks financial conditions arising from market variables which include interest rates, foreign exchange rates, equities and commodity prices at the bank

Credit risk exposure; is the underlying default risk of counter parties ranging from retail customers to trading counterparties at the bank

Financial performance; the degree to which financial objectives are being or have been accomplished by the bank

ABSTRACT

The study focused on Risk Exposure and Financial Performance of the Banking Industry in Uganda with Barclays Bank – Ndeeba Branch in Kampala District being the case study. The study was guided by the following objectives: To examine the effect of credit risk on the financial performance of Barclays bank Uganda Limited, to investigate the effect of market risk on the financial performance of Barclays Bank Uganda Limited, and to establish the contribution of liquidity risk to the financial performance of Barclays Bank Uganda Limited. A case study was carried out that adopted both qualitative and quantitative approaches. Through the census sampling technique, Primary data was collected from 40 respondents. These included; the branch manager, team leaders, relationship managers, loan officers, teller staff and customers using self- administered questionnaires and interview guides, while secondary data was obtained with the guidance of a documentary review checklist from books kept by bank management, Bank of Uganda journals and Bank of Uganda annual reports. A statistical package SPSS was used to analyze the quantitative data collected through the questionnaires and content analysis was used to analyze qualitative data collected.

The findings of the study revealed that credit risk exposure was essential for bank performance. The findings on the relationship between market risk and financial performance revealed that the bank had in place internal controls to mitigate market risk exposure much as the internal controls were not as effective as possible to mitigate the risks arising out of the market. From the findings it was also established that liquidity risk exposure determined the performance of the bank which was justification that a reduction in liquidity risk would help the bank to be able to meet its day to day financial obligations as they fall due, be more accountable to the different stakeholders and ensure efficiency in its operations. From the study findings, it can be concluded that the risk management team should put emphasis on credit risk exposure, liquidity risk exposure and market risk exposure in order to promote efficiency, effectiveness in terms of profitability, costs reduction, revenue collections and market growth.

The study therefore recommends, that since the model could not determine the variance of financial performance at Barclays bank, the management of the bank should draw a lot of emphasis on the identification, measurement and control of credit risk, market risk and liquidity risk through designing of appropriate strategies to reduce financial risks and in turn enhance the bank's financial performance.

CHAPTER ONE

INTRODUCTION

1.0. Introduction

This study examines the effect of risk exposure on the financial performance of the Banking Industry in Uganda, taking the case study of Barclays Bank -Ndeeba Branch Kampala. This chapter contains the background to the study, the problem statement, objectives of the study (specific objectives), research questions, study hypotheses, scope of the study, and significance of the study and the structure of the report.

1.1. Back ground to the study

World over, financial services offered by commercial banks include savings deposits, credit services, insurance services, money transfers and business counseling (Ledgerwood, 2009). Commercial banks are distinguished from other financial institutions by their accepting deposits and provision of credit. Loans are the basic source of revenue and a major part of asset for banks. However, poor management of credit has historically been a major cause of bank failure (Comptroller's Handbook, 1998). Loans are associated with default risk in addition to the inherent risk of individual loans. The recent financial crisis of 2008 had severe consequences for commercial banks in developing countries. In Uganda, at the beginning of the 1990s, there was no specialized formal financial institution delivering finance services, but except for some non-governmental organizations and government programs.

By 2007 the financial sector in Uganda had bank of Uganda as the central bank, 18 commercial banks, 4 credit institutions, 2 development banks., 4 Micro Deposit Taking Institutions (MDIs), 1 national security fund, The Uganda securities exchange and more than 1000 MFI including SACCOs. The Ugandan financial sector structure is arranged in tiers 1, 2, 3 and 4 (The AMFIU Annual Report 2007). Commercial banks are increasingly a central source of credit for the poor in many countries. The typical repayment schedule offered by banks consists of either weekly or monthly repayments after loan disbursement. The total weekly repayment or monthly repayments are either brought to the institution individually or collected by the group members to be banked by the any one of the group officials led by the credit officer. Barclays Bank (Uganda) Limited, commonly known as Barclays Bank (Uganda), is a commercial bank in Uganda. It is one of the commercial banks licensed by Bank of Uganda, the central bank and national banking regulator.

Barclays Bank (Uganda) opened for business in Uganda in 1927, with two branches in the capital city, Kampala and one in Jinja, the country's second-largest commercial center. The bank is primarily involved in meeting the banking needs of individuals, small and medium businesses (SMEs), as well as large corporations. As of December 2011, Barclays Bank (Uganda) was the third largest commercial bank in Uganda, with assets in excess of US\$496.1 million (UGX 1,166 billion). In February 2007, Barclays Bank completed the acquisition of Nile Bank Uganda Limited, strengthening its presence in the country and expanded its footprint from 7 branches to the current 51 and 75 ATMs. The acquisition of Nile Bank by Barclays Bank attracted public attention in view of the

management of the takeover. Nile Bank, Barclays Bank's latest takeover made it the distinction of being the seventh largest commercial bank in Uganda with a grand total of 18 branches. Before the takeover of Nile Bank by Barclays, the former was a small efficient bank.

However, with the takeover came challenges which related to change procedures were staff from the mainstream Barclays Bank being favored compared to their counterparts from Nile Bank. This was echoed by the then CEO who asserted that some of the staff have remained indifferent since most of the staff who were absorbed into the new structure were offered different positions in the unified organization. This forced some of the staff to tender in their resignation letters as some of the staff revealed. Some survivors testified to the poor handling of the transformation process of the establishment of the acquisition, sighting reasons that management did not exhibit any care and/ socially responsible which had caused loss of motivation, lower morale, guilt and fear about job security. Barclays Bank annual report (2011)

The study is guided by the principle agency theory and Institutional Theory Donahue (1989). The principal agent theory operationalized the independent variable whereas; the institutional theory operationalized the dependent variable. The institutional theory states to the deeper and more resilient aspects of organizational structure. Making considerations on the processes by which structures became established as authoritative guidelines for the organization. It made inquiries into how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and

disuse. According to Scott (2001), these social structures are both imposed on and upheld by the actor's (e.g. an individual, an organization, etc.) behavior.

On the other hand, the principal agent theory as advocated by Donahue (1989) explains the relationship role played by managers. Donahue's opinion was based on the borrower/lender relationship and the need of the recipient, as the principal, to minimize the risks posed by the agent. An important element of any principal-agent model is to specify an observable that will be the main element of the contract. When the agent is the borrower, measuring performance should ideally be based on a mix of indicators including output, outcome, and impact. Donahue argued that credit managers including all officers concerned with credit management must play the agent role. Therefore credit managers take on the role of agent for elected representatives.

The Modern Portfolio Theory by Donahue (1989) focuses on making investments after examining the entire market and the whole economy. The theory is an alternative to the older method of analyzing each investment's individual merits. When investors look at each investment's individual merits, they're analyzing one investment without worrying about the way different investments will perform relative to each other. On the other hand, MPT places a large emphasis on the correlation between investments. Correlation is the amount that is expected from the various investments and various asset classes to change in value compared with each other. In its simplest form, portfolio theory is about finding the balance between maximizing the company's returns and risks. The objective is to select investments in such a way as to diversify risks while

not reducing expected return. While it does not replace the role of an informed investor, it can provide a powerful tool to complement an actively managed portfolio.

Risk is a concept that denotes a potential negative impact to some characteristic of value that may arise from a future event, or we can say that Risks are events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative effect (ISO Guide 73:2002). Financial institutions have faced difficulties over the years for a multitude of reasons; the major cause of serious banking problems continues to be directly related to poor portfolio risk management, or lack of attention to changes in economic or other circumstances that can lead to deterioration in the credit standing of a bank's counterparties (Saunders and Cornett, 2007).

According to the Reserve Bank of Zimbabwe (RBZ) risk management operating document (2004), credit risk or default risk involves inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions. Credit risk arises from uncertainty in counterparty's ability or willingness to meet its contractual obligations. Bessis (1998) also includes a decline in the credit standing of counterparty as part of credit risk. Credit risk management covers both the decision making process, before the credit decision is made, and the follow-up of credit commitments, plus all monitoring and reporting processes (Miller, 1996). In other words, insufficient effort of controlling credit risk may lead to high probability of financial difficulties.

Market risk is defined as ‘the risks of losses arising from adverse movements in market prices (e.g. equity prices) or market rates (e.g. interest or exchange rates)’ (Dowd, 1998). In banking sector, market risk is generally caused by changes in interest rate and foreign exchange rate, commodity and equity prices, and financial instruments traded in the market. Nevertheless, various banks may emphasis on different part of market risks by considering their business activities. Harper et al, (2009) defines liquidity risk as the potential that a bank fails to meet its payment obligations and to replace funds when they are required by customers. Add that liquidity risk arise because the maturity of a bank’s assets significantly differ that of its liabilities (Chen, 1994). FRS 13 defined that banks receive deposits and other refundable funds from public and to grant credits for its own account. Therefore, banks conduct business activities in either side of their balance sheet. At the assets side, they lend money to illiquid customers to make profits, whereas they are required to keep liquid in order to meet deposit owners’ demands at the liability side.

Most organizations view their performance in terms of effectiveness in achieving their mission, purpose or goals. Most NGOs, for example, would tend to link the larger notion of organizational performance to the results of their particular programs to improve the lives of a target group (Harmanzi, 2002). 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 (Kanwar, 2009). 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.

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 (Grody, et al 2009). Each of these seven capacity areas may be described in sub-components, as for example in the organization's strategic leadership capacity which is understood as its structure, governance, leadership, strategic plans and niche management. Human resources, financial resources and infrastructure are seen as resources as well as the management of these resources (Harmanzi, 2002). Organizations also have capacities that result from the relations, partnerships and alliances they have established with other organizations referred to as inter-institutional linkages.

Banking is the business of providing financial services to consumers and businesses. The basic services a bank provides are checking accounts, which can be used like money to make payments and purchase goods and services; savings accounts and time deposits that can be used to save money for future use; loans that consumers and businesses can use to purchase goods and services; and basic cash management services such as check cashing and foreign currency exchange. Four types of banks specialize in offering these basic banking services: commercial banks, savings and loan associations, savings banks, and

credit unions. According to the 2000 Bank of Uganda statute, the body that is solely responsible for control of activities that are done in the banking sector is Bank of Uganda (BOU) therefore all the forms of risk in this sector are monitored by the body. Therefore basing on the above understanding of risk a need for this study is called for to create awareness to the banking sector as well as investors about the impacts of risk.

According to (Bikker and Metzmakers, 2005; Buttimer, 2001) risk is the fundamental element that drives financial behavior. Without risk, the financial system would be vastly simplified. However, risk is omnipresent in the real world. Financial Institutions therefore, should manage the risk efficiently to survive in this highly uncertain world. The future of banking will undoubtedly rest on risk management dynamics. Only those banks that have efficient risk management system will survive in the market in the long run.

In the case of Uganda, the financial sector has undergone several reforms geared among other things toward improvement of risk management. The reforms in the sector brought about the formation of the risk management framework which is now operational in all commercial banks including Barclays Bank. Barclays Bank's latest takeover of Nile bank made it the distinction of being the seventh largest commercial bank in Uganda with a grand total of over 18 branches and ATM's spread across the country. The major problem facing the institution has been identified as failure to manage risk (Annual reports 2009, 2010). Despite the existence of a robust risk governance framework, the bank has continued to experience continuous bank fraud, no due diligence performed and deliberate refusal to follow procedure (Bank of Uganda On-site Examination Report, 2011).

A commercial bank is an institution that provides financial services, including issuing money in various forms, receiving deposits of money, lending money and processing transactions and the creating of credit (Campbell, 2007). Commercial Banks in Uganda are licensed, supervised and regulated by the Central Bank of Uganda. Kenya has 27 banks; The Banking industry in Uganda is governed by the Financial Institutions Act 2004, the Banking Act, the Bank of Uganda Act 1993 as well as the various prudential guidelines issued by the Central Bank of Uganda (BOU). The BOU, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

By definition and nature of Barclays bank business, capital is considered to be at risk every day. This means that a transaction the bank executes may lead to the realization of financial loss (risk) and capital refers to the amount that the bank has implicitly or explicitly allocated to support that expected loss or downside. Given the nature of the bank's liability contracts, these losses can only be offset by retained earnings or by the capital entrusted to the bank by the shareholders. (Financial institutions act 2004, part111)

The objective of this implementation framework is not to eliminate risk taking behavior or capital loss; it is to ensure that such losses are communicated at the right forum, in a timely fashion and can be traced back to the original capital allocation decision. A side objective is to put the same losses to good use by allowing the bank to learn from their past and improve their overall returns for each unit of risk booked by their businesses.(Bank of Uganda Act, 1993 ,Part vii, section 38,39)

The implementation of this policy rests with the Board of Directors. The Board manages this responsibility through the Board Risk Committee. The Board Risk Committee is updated on a regular basis by the Head of Risk and the Risk Management group on the risk exposures, trends and benchmarks for each risk type covered within the scope of this policy.(Barclays Bank risk management policy framework 2016, part V)

According to the data of Barclays bank, credit risk had an annual growth rate of 20%. For example, in 2010 as a result of connivance between staff and fraudsters, funds were fraudulently transferred from several foreign accounts and credited to various local accounts in the bank without any due diligence performed on the source and purpose of the funds. Similarly, the bank has been experiencing non declaration of overages and suppression of customer deposits by staff for personal gains, which results into losses to the bank in settlement of these customer claims. Likewise, bank staffs are required to sign an oath of secrecy to safe guard against customers' financial information linking to wrong people. But staff abuses this mandate when they alter clientele financial information and use it to benefit themselves and aide other people to also benefit it. In 2006 at one of the branches of the bank, a staff issued a bank statement with altered account details to a fraudster who presented it to the US embassy and it turned out that the information on the statement presented did not belong to the duty bearer.

This policy document covers the oversight of Board, Senior Management and the Risk Management Group of Barclays bank over the primary risk exposures on, credit risk, market Risk and liquidity Risk upon which the study on risk exposure and financial performance of Barclays Bank is based.

1.2 Statement of the Problem

Financial risk is a very instrumental element that Barclays Bank Uganda Limited should take serious note of, if they are to prosper. It is a general problem that the banking sector in Uganda is facing up to today. Much as the Bank tries to work very hard to control and avoid these risks, it is not yet achieved since their operations are still being affected greatly by the various forms of risk. According to Barclays Bank's Audit report for July 2011, stated as per 30th June 2011, loan and advances to customers stood at Ushs.488,326,000,000 as opposed to the 495,831,000,000 that was recorded in the previous year indicating a decline of 7,505,000,000 and accounting for 40.4 % from 74.2% of the total loan portfolio yet the maximum amount the bank could lend according to 2011 financial report was Ushs.1,209,785,000,000.the Audit report further indicated that the default rate of loans had increased from 25% to 40 % in the financial year 2011-2012. In addition the bank usually projects annual revenue coming from bank charges, but these have always reflected a big negative deviation from the actual. Consequently, Barclay's bank Uganda Limited has suffered impairment losses on its loans and advances, marketing and advertising costs that don't match with the annual returns, and declining revenues from both bank charges and agency banking. (Barclays Bank- Uganda 2015/16 Annual Report), this has registered low performance due to declining profits, low liquidity, budget overruns and slow growth which have persisted. Despite management's efforts to reduce, control and eliminate default risk, market risk and liquidity risk, if the above are not well addressed in future, it will continue to slow down the performance of the bank thus financial distress and its implications.

1.3 General Objective

The study investigated the effect of risk exposure on the financial performance of the banking industry in Uganda using Barclays Bank – Ndeeba branch as the case study.

1.4 Specific Objectives

The following were the specific objectives that guided the study;

- i) To examine the effect of credit risk management on the financial performance in Barclays bank Uganda Limited
- ii) To investigate the effect of market risk management of the financial performance in Barclays Bank Uganda Limited.
- iii) To establish the contribution of liquidity risk management to the financial performance in Barclays Bank Uganda Limited.

1.5 Research Questions

The following were the research questions;

- i) What is the effect of credit risk management on the financial performance of Barclays bank Uganda Limited?
- ii) What is the effect of market risk management on the financial performance of Barclays Bank Uganda Limited?
- iii) What is the contribution of liquidity risk management on the financial performance in Barclays Bank Uganda Limited?

1.6 Study Hypothesis

The following is the hypothesis guiding the study;

Ho: -There is no statistically significant relationship between risk exposure and financial performance of Barclays Bank Uganda Limited.

H1: - There is a statistically significant relationship between risks exposure and financial performance of Barclays Bank Uganda Limited.

1.7 Scope of the Study

Under study scope, the geographical scope, content scope and time scope for the study was covered.

1.7.1 Geographical Scope

The study was carried out at Barclays Bank Ndeeba branch located in Kampala Uganda since most of the branches of the bank face similar problems. The study was restricted to the staff at the branch which is located in Kampala metropolitan.

1.7.2 Content Scope

The study focused on establishing the effect of risk exposures on the financial performance of Barclays Bank. In the study, risk exposure is the independent variable in this study and was examined through the existence of credit risk, market risk and liquidity risk. Financial performance was the dependent variable that was measured through profits, growth rate, and liquidity level, returns on assets and capital adequacy

1.6.3 Time Scope

The study covered the period from 2011 to 2017 during which the bank continued to experience a decline in performance due to declining profits, low liquidity, budget overruns and slow growth (Annual Report, 2012) despite management's efforts to reduce, control and eliminate financial risks.

1.7 Significance of the Study

This study is significant in that it will;

Guide the management of Barclays Bank- Ndeeba Branch in Kampala District. The findings of the study shall provide a descriptive analysis on the relevance of financial risk exposures in Ugandan commercial banks and how they can be efficiently and effectively managed

Guide Key actors in the financial sector such as the commercial banks, central bank and other financial institutions. The information from this study shall guide in the design, implementation and review of the existing risk management policy framework.

Nkumba University; the findings of this study will add to the body of knowledge on risk management and shall guide future research in commercial banks in financial risk for better performance of the Banks.

The researcher; this study findings are significant to the researcher in gaining experience in research and writing skill as a partial requirement for an award of a Master's degree.

1.9 Structure of the Dissertation

The dissertation is comprised of eight chapters. Chapter one covers the background of the study; statement of the problem; objectives of the study; research questions; hypotheses; significance of the study; scope of the study. Chapter two presents study literature. It highlights literature survey, literature review and the conceptual analysis.

Chapter three presents research methodology. It highlights research methodology, data collection and management. Chapter four presents finding on objective one: to examine

how risk is identified, measured, monitored, analyzed and reported by the risk management team to ensure financial prudence of Barclays Bank Uganda limited.

Chapter five presents findings on objective two: to assess how trends and bench marks of individual risks are analyzed in order to ensure financial prudence of Barclays Bank Uganda Limited. Chapter Six presents finding on objective three: to establish how risk exposure are identified, controlled and managed by the risk management team in order to ensure finance prudence of Barclays Bank Uganda Limited. Chapter seven links the findings to literature review and suggests way forward for risk management and financial performance of Barclays Bank. Chapter eight presents summary and conclusions to the study.

CHAPTER TWO

STUDY LITERATURE

2.0 Introduction

This chapter presents study literature. It highlights literature survey, literature review and the conceptual framework of analysis.

2.1 Literature Survey

The concept of risks exposure and financial performance has not received adequate attention in Uganda in general and in Barclays Bank in particular. Research in this area is scanty and does not provide a detailed picture of the current situation in the banking sector in general and in Barclays bank in particular. Here below are reviewed studies that have so far been undertaken in this area and the gaps that the current study is attempting to fill.

Nabweteme (2012) carried a study on operational risk management, and organizational performance in Stanbic Bank Uganda Limited with the objectives of establishing the relationship between systematic risk, and environmental risk and technological risk on organizational performance; in her research, she adopted a cross sectional study using both qualitative and quantitative research methods. The findings of Nabweteme's study revealed that there was a strong positive and significant relationship between systematic risk, organizational environment and technological risks on organizational performance. However, the study provided little or no information on the effect of risk exposures and financial performance in the banking industry. This made it impossible to study the effect

of different dimensions of risk exposed to banks and how they affect their performance which provides an area for further research.

Similarly, Semakula (2011) carried out a study on the Adequacy of the current operational risk management framework in Centenary Bank Limited. In his research, he adopted a cross sectional study using both qualitative and quantitative research methods. Data was collected from selected staff using self administered questionnaires. In general, the findings revealed that there were adequate internal controls to mitigate risk, the management of the bank updates system applications and IT systems, the databases of the bank were always up to date and the staff followed approved procedures in execution of their duties which symbolized that the current operational risk management framework at the bank was to some extent dependable. Among the challenges facing the current operational risk management framework included the increasing cost of inspection during risk management, limited access to appropriate information, infrequent performance, failure to learn from the past, lack of consistency in procedures, lack of understanding of upcoming technology and lack of meaningful and timely data.

From the findings, the strategies proposed to mitigate the current operational risk management at the bank and at the same time improve the current framework included development of an effective insurance policy to cover occurrence of risk related activities, management , head hunt and recruit staff with the expertise in managing operational risk, information control from easy access was crucial to continued operations, stringent measures on system access and navigation needed to be put in place

to limit system abuse, there should be regular update of the bank systems to match technological advancements and continuous training of staff on risk management and system use was of importance.

Namwanje (2013) preferred to examine the relationship between risk management and portfolio performance of commercial banks in Uganda: a case of Stanbic bank Uganda limited. The study adopted a cross sectional design with a population of 60 respondents from which purposive sampling and simple random sampling methods were used to select the respondents. Data were collected from staff of Stanbic bank using self-administered questionnaires and interview guide. The findings indicated that there were significant positive relationships between credit risk assessment and portfolio performance; credit risk monitoring and portfolio performance; and credit risk control and portfolio performance which was confirmation that risk management was a major determinant of portfolio performance at Stanbic bank. From the regression results, credit risk assessment, credit risk monitoring and credit risk control were strong predictors of portfolio performance showing a 42.6% variance in portfolio performance. Consequently tight credit risk controls in the form of stringent credit risk assessment and monitoring procedures and policies were designed to guide the banks operation. Namwanje's study does not address the other risk exposures on financial performance and therefore providing a plat form for further research.

2.2 Literature Review

Issues relating to risk exposure and the financial performance in the banking industry are not unique to the industry in Uganda in general and in Barclays bank in particular. They have been the subject of study by different researchers in a similar environment outside the Ugandan banking sector.

According to Bruce (1994), the purpose of a literature review is to provide a background and justification for the research study undertaken. He further went on to add that, that literature review is so important that its omission represents a void and absence of a major element in research regarding theory and practice.

2.2.1. Theoretical review

This study was guided by the Principal- Agent Relationship theory, the Modern Portfolio theory as well as the Organizational / Systems theory.

The Principal – Agent relationship Theory.

The theory was propounded by Jansen and Meckling (1976). According to these scholars, an agency relationship is a contract under which one or more persons (principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. When executing the tasks within the principal-agent relationship, the agent must choose actions that have consequences for both the principal and the agent. Since these outcomes can be either negative or positive for each of the actors, the chosen action of the agent affects the welfare of both. The principal-agent relationship is often forged because the agent possesses a greater abundance of the needed skills, abilities, and/or time to perform the desired activities.

The theory that underpinned this study was the principal agent theory pertaining to the relationship between two parties. (Mahalingam S.M, 2005) This theory operationalizes the Independent variable because it explains how agent (bank employees) responds to principle (creditors, market conditions and liquidity) which are the daily occurrences in the banking industry.

Modern portfolio theory

This theory was proposed by Markowitz (1952), it attempts to maximize the portfolio expected returns from a given amount of portfolio risk or equivalently minimize risk for a given level of expected return by carefully choosing the proportion of various assets. Markowitz proposed that investors focus on selecting portfolio based on their overall risk reward characteristics instead of merely selecting portfolio from securities that each individually has attractive risk reward characteristics. International journal of finance and Banking research (November 23, 2017) this theory operationalizes the dependent variable on financial performance of Barclays Bank limited.

2.3 Review of Related Literature

Under literature review, a review of the literature on the study objectives will be carried out so as to assess the current debate on the associations between the dimensions of financial risks on organizational performance.

2.3.1 Credit Risk and financial Performance

Credit risk is the current and prospective risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with the bank or otherwise to perform

as agreed. Credit risk is found in all activities in which success depends on counterparty, issuers, or borrower performance. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. Thus risk is determined by factor extraneous to the bank such as general unemployment levels, changing socio-economic conditions, debtors' attitudes and political issues. Credit risk according to Basel Committee of Banking Supervision BCBS (2001) and Gostineau (1992) is the possibility of losing the outstanding loan partially or totally, due to credit events (default risk).

The Management of the risk-return tradeoff is imperative for the banks to maintain their profitability. Since their core activity is credit creation, this renders credit risks inevitable. As a result, credit risk is among the core risks related to the bank main income generation activity. According to a Feb. 13 China Banking Regulatory Commission report, credit risks has been observed to continue to increase for Chinese banks through 2014, with nonperforming loans of the country's commercial banks increasing from 250.6 billion Yuan to 842.6 billion Yuan from the previous year. However, the regulator still assures the public that banks' asset quality was still under control.

It should be noted that it is an established fact in many literature of banking that the losses of many banks are a result of the Non-Performing Loans. Increases in Non Performing Loans rate are often associated with the failure of the bank's credit policy. It is also evident that the financial crisis which occurred in the US in the late 2000s and spread in most parts of the world was indeed a result of default on loans and mortgages. Although, the major causes of bad debts are the failure of borrowers to pay back, which is

often caused by the uneconomic use of loans, high-interest rate and low per capita income. Extra flexible credit rationing policy can also be a source high Non Performing Loans rate in the midst of the high competitive banking environment of today's world. Hence, it is clear why banks need to manage credit risk which is mainly from Non-Performing Loans as it is very crucial for banks survival and profitability.

Credit risk according to Basel Committee of Banking Supervision BCBS (2001) is the possibility of losing the outstanding loan partially or totally, due to credit events (default risk). Credit events usually include events such as bankruptcy, failure to pay a due obligation, repudiation/moratorium or credit rating change and restructure. Basel Committee on Banking Supervision- BCBS (1999) defined credit risk as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

Banks generate income mainly through credit creation, which also results in huge risks to the lender and the borrower. The smooth functioning of the bank can be greatly jeopardized by a failure of the trading partner to fulfill their contractual obligation in due date. A bank with a high credit risk has high bankruptcy risk that puts the depositors in jeopardy. Interest rates charged by banks are fast overtaken by inflation and borrowers find it difficult to repay loans in unstable economic environments because real income falls, leading to increased insider loans and over-concentration in certain type's portfolios giving rise to credit risk. But in a bid to survive and maintain profits in this highly competitive environment, banks have the tendency to take unnecessary risks. In 1994, many bank failures occurred in Mexico, 1980s banking crises in Kenya and 1990s in

Spain were attributed to lack of experience, improper lending practices, increasing the tendency for greater risk taking and organization, and lack of information systems to adequately assess credit risk in the falling economy.

It is not doubted that innovation and in general research and the nature of the banking business is very sensitive because more than 85% of their liabilities are customer's deposits (Saunders, Cornett, 2005). Banks then use these deposits to generate credit for their borrowers, which is the main revenue generating activity for most banks. With the increase of credit transactions and loan customers in the nation's economy, credit expansion is inevitable. The trend in the sector shows growing bank deposit-loan ratio as the economy grows but unfortunately so is credit risk growth. Traditionally, credit was made available in association with one's financial status, business sustainability, reputation, and liquidity, but the unpredictable market situations make it difficult for banks to rely on these determinants. Business conditions are often unpredictable and can lead to changes in the borrower's financial position thus affecting their ability the repay the loans.

The impact of Credit risk on financial performance has been a topic of interest to many scholars since credit risk has been identified as one of the major factors known to impact the financial performance of banks. Amongst others who have carried out extensive studies on the topic, their results have not been in consensus. While others found credit risk to impact positively on bank's financial performance, others found a negative relationship and others asserted that other factors apart from credit risks which impact on

bank's performance because they did not find convincing evidence otherwise. Basel committee on banking (2006)

Credit events usually include events such as bankruptcy, failure to pay a due obligation, repudiation/moratorium or credit rating change and restructure. Basel Committee on Banking Supervision- BCBS (1999) defined credit risk as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Heffernan (1996) observe that credit risk as the risk that an asset or a loan becomes irrecoverable in the case of outright default, or the risk of delay in the servicing of the loan. In either case, the present value of the asset declines, thereby undermining the solvency of a bank. Credit risk is critical since the default of a small number of important customers can generate large losses, which can lead to insolvency (Bessis, 2002). BCBS (1999) observed that banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transaction.

Anthony (1997) asserts that credit risk arises from non-performance by a borrower. It may arise from either an inability or an unwillingness to perform in the pre-committed contracted manner. Brown bridge (1998) claimed that the single biggest contributor to the bad loans of many of the failed local banks was insider lending. He further observed that the second major factor contributing to bank failure were the high interest rates charged to borrowers operating in the high-risk. The most profound impact of high non-

performing loans in banks portfolio is reduction in the bank profitability especially when it comes to disposals. BCBS (1982) stated that lending involves a number of risks. In addition to risk related to the creditworthiness of the borrower, there are others including funding risk, interest rate risk, clearing risk and foreign exchange risk. International lending also involves country risk. BCBS (2006) observed that historical experience shows that concentration of credit risk in asset portfolios has been one of the major causes of bank distress. This is true both for individual institutions as well as banking systems at large.

Robert and Gary (1994) state that the most obvious characteristics of failed banks is not poor operating efficiency, however, but an increased volume of non-performing loans. Non-performing loans in failed banks have typically been associated with regional macroeconomic problems. DeYoung and Whalen (1994) observed that the US Office of the Comptroller of the Currency found the difference between the failed banks and those that remained healthy or recovered from problems was the caliber of management. Superior managers not only run their banks in a cost efficient fashion, and thus generate large profits relative to their peers, but also impose better loan underwriting and monitoring standards than their peers which result to better credit quality. Koehn and Santomero (1980), Kim and Santomero (1988) and Athanasoglou et al. (2005), suggest that bank risk taking has pervasive effects on bank profits and safety.

Bobakovia (2003) asserts that the profitability of a bank depends on its ability to foresee, avoid and monitor risks, possible to cover losses brought about by risk arisen. This has

the net effect of increasing the ratio of substandard credits in the bank's credit portfolio and decreasing the bank's profitability (Mamman and Oluyemi, 1994). The banks supervisors are well aware of this problem, it is however very difficult to persuade bank managers to follow more prudent credit policies during an economic upturn, especially in a highly competitive environment. They claim that even conservative managers might find market pressure for higher profits very difficult to overcome. The deregulation of the financial system in Nigeria embarked upon from 1986 allowed the influx of banks into the banking industry. As a result of alternative interest rate on deposits and loans, credits were given out indiscriminately without proper credit appraisal (Philip, 1994).

The resultant effects were that many of these loans turn out to be bad. It is therefore not surprising to find banks to have non-performing loans that exceed 50 per cent of the bank's loan portfolio. The increased number of banks over-stretched their existing human resources capacity which resulted into many problems such as poor credit appraisal system, financial crimes, accumulation of poor asset quality among others (Sanusi, 2002). The consequence was increased in the number of distressed banks.

However, bank management, adverse ownership influences and other forms of insider abuses coupled with political considerations and prolonged court process especially as regards debts recovery created difficulties to reducing distress in the financial system (Sanusi, 2002). Since the banking crisis started, the Central Bank of Nigeria (CBN) has had to revoke the licenses of many distressed bank particularly in the 1990's and recently some banks has to be bailout. This calls for efficient management of risk involving loan

and other advances to prevent reoccurrences. A high level of financial leverage is usually associated with high risk. This can easily be seen in a situation where adverse rumors, whether founded or precipitated financial panic and by extension a run on a bank.

2.3.2 Market Risk and financial Performance

Market risk is the risk that the financial instrument's value will fluctuate as a result from market price changes, regardless of whether these changes are caused by factors typical for individual instruments or their issuer (counterparty), or by factors pertaining to all the instruments traded on the market (Bobakovia, 2003). The four most common factors connected with market risk are interest rates, currency exchange rates, and costs of investments in trade portfolio, prices of exchange commodities and other market variables related to the bank's activity. The market risk pertaining to both individual financial instruments and portfolio instruments can be a function of one, several or all these factors, and in many cases it can be very complicated (Koehn and Santomero, 1980). In general, market risk can be defined as a risk arising from market movements of prices, interest rates and currency exchange rates.

The admissible threshold of market risk is the amount of potential unexpected loss which the bank is willing to assume because of unexpected and unfavorable changes in the market variables (Kim and Santomero, 1988). The admissible threshold of market risk should not exceed the losses which the bank can assume without disturbing its financial stability. The bank's ability to overcome losses caused by market risk depends on its capital and reserves, on the potential losses originating from other non-market risks and on the regulatory capital required for maintaining the business activity. Risk monitoring

is the fundament for effective management process (Athanasoglou et al. 2005). That is the reason why the banking institutions should have adequate internal reporting systems reflecting their exposure to market risk. Sufficiently detailed regular reports should be submitted to the top management and to the various management levels.

Interest rate risk is the probability that variations in the interest rates will have a negative influence on the quality of a given financial instrument or portfolio, as well as on the institution's condition as a whole (Bessis, 2002). Assuming of that risk is a normal aspect of the bank's activity and can be an important source of profit and share value. However, excess interest rate risk can significantly jeopardize the bank's incomes and capital base. Variations in the interest rates influence the bank's incomes and change its net interest revenues and the level of other interest-sensitive earnings and operative costs (Jenkinson, 2008). Interest rate variations also affect the basic value of the bank's assets, liabilities and off-balance instruments, because the present value of the future cash flows (and in some cases the cash flows themselves) alters when interest rates change (Falconer, 2001). Interest rates variations can also influence the level of credit risk and the ability to retain the attracted resources. That is why the effective interest risk management that keeps risk in reasonable limits is of vital importance for bank stability.

Currency risk is the risk where the fair value or future cash flows of a given financial instrument fluctuate as a result from changes in the currency exchange rates. Currency exchange rates can be subject to big and unexpected changes, and understanding and managing of the risk related to the currency exchange rates' volatility can be very

complicated. Although it is important to acknowledge that currency exchange rates are definitely a market risk factor, the currency instruments' valuation usually requires knowledge about the behavior of both spot currency exchange rates and interest rates (Falconer, 2001). Each forward premium or value discount of a given foreign currency against the local one is determined to a great extent by the relative interest rates on the two national markets. Like all market risks, the currency risk evolves from both open and improperly balanced or hedged positions (Jenkinson, 2008). The imperfect correlations between the currencies and the international interest markets put forward concrete challenges to the efficiency of the hedging currency strategies.

Price risk refers to risk when the fair value or future cash flows of capital and debt financial instruments (stocks, bonds, indexes and derivatives connected with them) fluctuate as a result from market prices' changes, no matter whether these changes are caused by factors typical for individual instruments or for their issuer (counterparty), or by factors related to all the instruments traded on the market (Diamond and Rajan, 2001). The risk connected with the commodity exchange prices is the probability of unfavorable changes in the value of commodities traded by the bank. Price risks associated with commodities differ significantly from interest rate and currency risks, and require careful monitoring and management as most of the commodities are traded on markets where the supply concentration can increase the price volatility (Jenkinson, 2008).

What is more, changes in the market liquidity are often accompanied by significant price volatility. That is why the commodities' prices are in broad lines more unstable than those

of most financial assets commonly traded (Diamond and Rajan, 2001; Falconer, 2001). The risk assessment associated with commodities prices should be performed market by market and it should include not only analysis of historical price movements, but also assessment of the supply and demand structure on the market, so that the probability for unusually large price movements can be assessed.

2.3.3 Liquidity Risk and financial Performance

Liquidity risk is the possibility that over a specific time period, the bank will become unable to settle obligations with immediate effect (Drehmann and Nikolaou, 2009). It is a risk arising from a bank's inability to meet its obligations when they come due without incurring unacceptable losses. This risk can adversely affect both banks' earnings and the capital and therefore, it becomes the top priority of a bank's management to ensure the availability of sufficient funds to meet future demands of providers and borrowers, at reasonable costs. The vulnerability of banks to liquidity risk is determined by the funding risk and the market risk. Liquidity risk needs to be monitored as part of the enterprise-wide risk management process, taking into account market risk and credit risk to ensure stability in the balance sheet and dynamic management of liquidity risk.

A bank should only attempt this if it makes good business sense, not use it as a means to keep afloat. Liquidity risk not only affects the performance of a bank but also its reputation (Jenkinson, 2008). A bank may lose the confidence of its depositors if funds are not timely provided to them. The bank's reputation may become at stake in this situation. The maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk (Basel Committee on Banking Supervision,

2008). The market liquidity risk refers to the inability to sell assets at or near the fair value, and in the case of a relevant sale in a small market; it can emerge as a price slump (Brunnermeier and Pedersen, 2009).

The behavior towards liquidity is affected by a firm's characteristics: a bank's liquidity position is affected by its size, status and product type. The size affects the attitude of the bank towards wholesale funding, including the access opportunity (Allen et al., 1989) and the price of the funds obtained (Nyborg et al., 2002). Bank size matters because of the economy of scope and scale; concerning liquidity, a large bank might have better access to the interbank markets because it has a larger network of regular counterparties or a wider range of collateral. The product type offered to the counterparties, on both the assets and liabilities sides, is able to affect the liquidity position; banks that take on demand deposits and offer loan commitments need to hold higher liquidity buffers that can be mitigated if an imperfect correlation holds (Kashyap et al., 2002).

Liquidity was a key factor during the 2008-09 financial crisis in which the banks funding sources dried up quickly and they found themselves short on cash to cover their obligations as they came due (Longworth 2010). There is a general sense that banks had not fully appreciated the importance of liquidity risk management and the implications of such risk for the bank itself. As result, policymakers have suggested that banks should hold more liquid assets than in the past, to help self-insure against potential liquidity or funding difficulties (BCBS 2010). Liquid assets such as cash and government securities generally have a relatively low return; therefore, holding them imposes an opportunity

cost on a bank. In the absence of regulation, it is reasonable to expect that banks will hold liquid assets to the extent they help to maximize the firm's profitability. Henceforth, policymakers have opted to require larger holdings of liquid assets.

This study seems to establish whether banks' holdings of liquid assets have a significant impact on their profitability. Profitability is improved for banks that hold some liquid assets, however, there is a point at which holding further liquid assets diminishes a banks' profitability, all else equal (Bernanke 2008). Such findings are conceptually in line with relevant literatures and are consistent with the idea that the opportunity cost of holding low-return assets eventually outweighs the benefit of any increase in the bank's liquidity. Likewise, there is a similar estimated benefit to holding more liquid assets when economic conditions deteriorate. The ultimate objective of any commercial bank is to maximize the profit. But, preserving liquidity of the commercial bank is equally an important objective too. The dilemma that is faced by the management of commercial banks is that increasing profits at the cost of liquidity can bring serious problems to the bank. Therefore, there must be a trade-off between these two objectives of the firms (Sufian and Chong, 2009).

One objective should not be at cost of the other because both have their importance. If we do not care about profit, we cannot survive for a longer period. On the other hand, if we do not care about liquidity, we may face the problem of insolvency or bankruptcy. For these reasons liquidity management in commercial bank should be given proper consideration and will ultimately affect the profitability of the bank. Liquidity problems

may affect a bank's earnings and capital and in extreme circumstances may result in the collapse of an otherwise solvent bank (Central Bank of Barbados, 2008). Banks may have to borrow from the market even at an exceptionally high rate during a liquidity crisis. This ultimately causes a decline in the banks' earnings. Moreover, a bank's further borrowing to meet depositors' demand may place the bank's capital at stake. Thus, debt to equity ratio will rise, affecting the bank's effort to maintain an optimal capital structure.

Liquidity risk may cause a fire sale of the assets of the bank which may spill over into an impairment of bank's capital base (Diamond and Rajan, 2001; Falconer, 2001). If any of the financial institutions faces a situation in which it has to sell a large number of its illiquid assets to meet the funding requirements (perhaps to reduce the leverage in conformity with the requirement of capital adequacy), the fire sale risk may arise. This scenario may dictate to offer price discount to attract buyers. This situation will have a knock on effect on the balance sheets of other institutions as they will also be obliged to mark their assets to the fire sale price (Goddard et al., 2009). Diamond and Rajan (2001) state that a bank may refuse the lending, even to a potential entrepreneur, if it feels that the liquidity need of the bank is quite high. This is an opportunity loss for the bank. If a bank is unable to meet the requirements of demand deposits, there can be a bank run (Diamond and Rajan, 2005). No bank invests all of its resources in the long-term projects.

Many of the funding resources are invested in the short term liquid assets. This provides a buffer against the liquidity shocks. Diamond and Rajan (2005) emphasize that a

mismatch in depositors demand and production of resources forces a bank to generate the resources at a higher cost. Liquidity has a greater impact on the tradable securities and portfolios. Broadly, it refers to the loss emerging from liquidating a given position (Zheng and Shen, 2008). It is essential for a bank to be aware of its liquidity position from a marketing perspective. It helps to expand its customer loans in case of attractive market opportunities (Falconer, 2001). A bank with liquidity problems loses a number of business opportunities. This places a bank at a competitive disadvantage, as a contrast to those of the competitors. Liquidity management is important for several reasons, for one the current assets of a manufacturing firm account for over half of its assets (Weinraub and Visscher 1998).

For a distribution company they account even more. Excessive levels of current assets can easily result in a firm realizing a sub-standard return on investment. However, the firms with too little current assets may incur shortages and difficulties in maintaining smooth operations (Gilbert and Reichert, 1995). For small companies current liabilities are the principal sources of external funding. Such firms do not have access to long term financing apart from mortgages on buildings. Fast growing and larger firms also make use of current liability financing. For these reasons, the financial managers devote considerable time working on these matters.

2.3.4. Risk exposures and financial performance.

Risk exposure is the measure of potential future loss resulting from a specified activity or event. An analysis of the risk exposures for a bank often ranks risks according to the probability of occurrence multiplied by the potential loss if they do occur. By ranking them, a bank can know which ones are minor and which ones are significant enough to warrant investment.

There are two categories of risks; pure risks and speculative risks. Pure risks are unexpected and cannot be controlled while speculative risks are voluntary risks that have uncertain outcomes. For this study, credit risk, market risk and liquidity risk are the preferred pure risks exposed to the bank (Yakup and Asli, 2010). It is the practices and procedures that accompany uses to optimize the amount of risk it handles with its financial interest.

Over the last decades, risk analysis and corporate risk management activities have become very important elements for both financial as well as non-financial corporations. Firms are exposed to different sources of risk, which can be divided into operational risks and financial risks. Operational risks or alternatively business risks relate to the uncertainty regarding the firm's investments and investment opportunities, and are influenced by the product markets in which a firm operates. In addition to operational risks, unexpected changes in e.g. interest rates, exchange rates, and oil prices create financial risks for individual companies. As opposed to operational risks, which influence a specific firm or industry, financial risks are market-wide risks that can affect the financial performance of companies in the whole economy. Both kinds of risk exposure can have substantial impact on the value of a firm.

In the banking sector worldwide, the Basel Accords are generally adopted by internationally active banks for tracking, reporting and exposing operational, credit and market risks. Basel 11 (2006). As a way of evaluating and managing current and possible financial risk at a firm financial risk managers must identify the risk, evaluate all possible remedies, and then implement the steps necessary to alleviate the risk. These risks are typically remedied by using certain financial instruments as a method of counteracting possible ramifications. Financial risk management cannot prevent a firm from all possible risks because some are unexpected and cannot be addressed quickly enough.

According to Tapiero (2004), financial risk management refers to the practice of creating economic value in a firm by using financial instruments to manage exposure to risk, particularly credit risk and market risk. Similar to general risk management, financial risk management requires identifying its sources, measuring it, and plans to address them (Conti and Mauri, 2008). Financial risk is often defined as the unexpected variability or volatility of returns and thus includes credit risks, liquidity risks and market risks (Holton, 2004). Therefore, financial risk management practices are those activities and procedures that are employed by managers in an effort of safeguarding an organization from credit risks, liquidity risks and market risks. Financial risk management practices fall into three major categories; credit risk practices, liquidity risk management practice as and market risks (Kithinji, 2010).

Implementation of financial risk management practices in order to minimize risk exposure, relates to the adequacy of the provision and reserves which are in accordance with Basel standards which require banks to have a capital adequacy ratio of 8%. The maintenance of capital adequacy is aiming at a moving target as the composition of risk-weighted assets gets changed every minute on account of fluctuation in the risk profile of a bank. Capital adequacy is known as the core capital providing permanent and readily available support to the bank to meet the unexpected losses (Medhat, 2006). Capital is also used as cushion to protect depositors in case of loss. Capital adequacy ratio is measured in terms of total capital as a percentage of total risk weighted assets which show the amount of capital an institution holds relative to the risk profile of its assets. Capital adequacy is evaluated using the minimum core capital which is the absolute amount of capital that institutions are required to maintain at all times for banks and mortgage finance companies as a requirement by the central bank.

The ultimate objective of minimizing risk exposure implementation is to maintain financial performance in the banking sector as aspects of risk management promote early warning system of monitoring relevant indicators; as well as stimulating and making provisions for possible realistic strains on the system by conducting stress testing. This helps regulators to monitor the system and prepare for ways to avert potential or discovered stress on the system hence establishing financial performance (Bikker&Metzmakers, 2005).

Financial Performance

Financial performance is company's ability to generate new resources, from day-to-day operations, over a given period of time and performance is gauged by net income and cash from operations. According to Toutou and Xiaodong (2011), financial performance is a general measure of how well a bank generates revenues from its capital. It also shows a bank's overall financial health over a period of time, and it helps to compare different banks across the banking industry at the same time. The bank's financial performance generally can be recognized as its stability and profitability. The stability refers to its risk factors and profitability refers to its financial return.

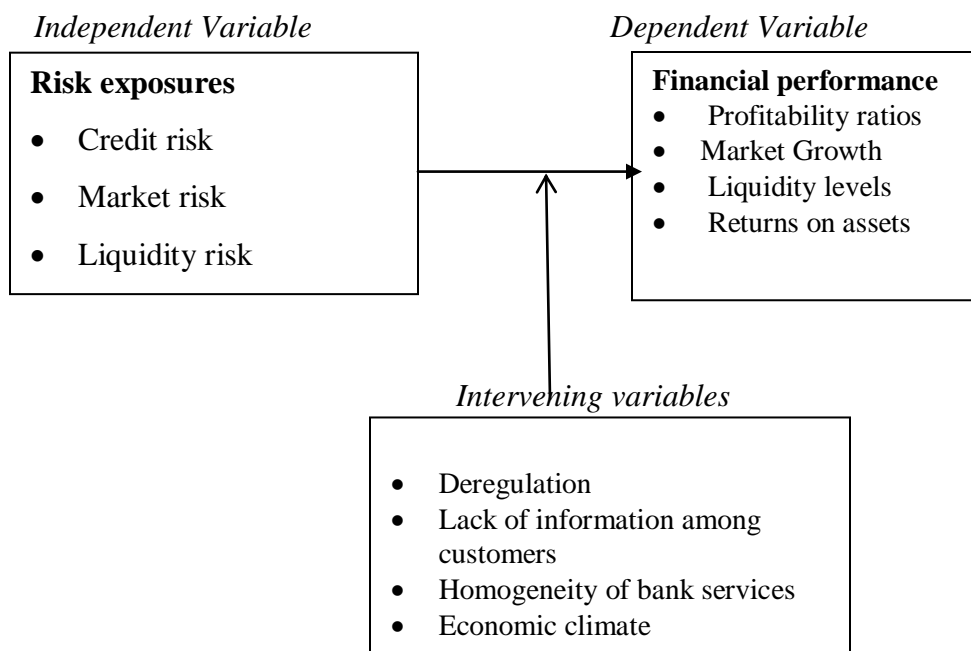
The Return on Asset and the Return on Equity are used by various scholars to measure the financial returns of an organization. The return on Assets (ROA) is a ratio that measures company earnings before interest & taxes (EBIT) against its total net assets.

The ratio is considered an indicator of how efficient a company is using its assets to generate before contractual obligation must be paid. It is calculated as: $ROA = \frac{EBIT}{\text{Total Assets}}$. Return on assets gives an indication of the capital intensity of the banking industry, which will depend on the industry; banks that require large initial investment will generally have lower return on assets (Apps, 1996). According to Pandey (1996), Return on equity (ROE) is calculated to see the profitability of owners' investments. It is calculated as annual net income after tax divided by shareholders equity as a measure of performance.

2.4. Conceptual Framework

The framework shows the different determinants of financial performance. The model shown in the figure 2.1 below examines the relationship between financial risk management and bank performance. Financial risk management practices play a big role in determining the level of bank performance. According to Opiela (2002) there is a relationship between financial risk management and the bank's financial performance. According to Opiela (2002), financial risks needs to be reduced, controlled and eliminated so as to ensure growth in an organization.

Fig. 2.1: Conceptual framework



Source: Derived from the review of literature of Bobakovia, 2003; Kim and Santomero, 1988; Drehmann and Nikolaou, 2009

Conceptual Review

Figure 2.1 above explains the association between the independent and the dependent variables including the expected outcome. Risk exposure as an independent variable has a causal outcome on the dependent variable (financial performance). The risk exposures comprises of credit risk, market risk and liquidity risk whereas financial performance is measured by liquidity, profitability, and return on investment, growth and capital adequacy. Therefore, the study attempted to establish how the identified risk exposures, affect financial performance in the midst of external factors.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter focused on the techniques that were used to obtain the required data for the study. It included the research design, location of the study, population of the study, sample size, sampling techniques, sampling procedure, and data collection methods, instruments for data collection, validity and reliability of the instruments, data analysis and measurement of variables.

3.1. Research Design

According to Owen (1996) a research design is an outline of how an investigation is carried and indicates how data was collected, what instruments were used, as well as the strategy. The design consisted of the research approach, research strategy, research duration and classification. For this study, Phenomenological case study design was adopted in order to probe into the beliefs and attitudes towards risk exposures. This design further enabled the researcher use highly descriptive and explanatory processes to gather data on the study subject

3.1.1 Research approach

The study approach that was used to collect data was a phenomenological approach. This approach allowed the allowed the researcher to probe the richness of emotions and motivations related to the topic, as well as beliefs and attitudes towards the risk exposures affecting the performance of the bank. The researcher further adopted quantitative and qualitative techniques in data collection.

3.1.2 Research strategy.

A research strategy is a general plan that helps a researcher to answer research questions in a systematic way. Saunders (2003), research. As such, the study used a case study of Barclays bank. This helped the researcher to collect close and deep or rather detailed information in relation to the research topic.

3.1.3 Research Duration.

The study focused on a longitudinal study taking the period between 2011 -2017 to study the impact of risk exposure on the financial performance of Barclay's Bank Limited. The researcher believed that was enough time to gather reliable information about the research variables. More so, it was a period when the bank suffered high losses from credit, market and liquidity risk exposures

3.1.4 Research Classification.

The study was classified as a highly descriptive correlational research whose process was made easy with the use of self-administered questionnaire and interview guide as instruments for data collection. Gossa (2016)

3.2 Study Area

The study was conducted at Barclays bank located in Ndeeba branch- Kampala district, Central region; the region consists of many financial institutions. However, Central region is too wide hence the researcher concentrated on Barclays bank in particular Ndeeba branch because of its close proximity to the researcher. Furthermore the branch had experienced high incidents of risk exposures which had constrained its overall performance (Barclays Bank Annual report (2011)

3.3 Study Population

In total, the population of the study was 30 respondents, comprising of 1 branch manager, 2 team leaders, 6 relationship managers, 16 loan officers, 5 teller staff and 10 customers (Barclays Bank Annual Report, 2011).

3.4. Study sample

To avoid duplication of information and resource wastage, the respondents will be selected purposefully in order to solicit unbiased information. Given that the population of the study was small, a census of all the respondents was carried out. Therefore the sample size for the study was 40 people

Table 1: Sample Size

Respondent	Population	Sample size	Sampling design
Branch manager	1	1	Census method
Team leaders	2	2	
Relationship managers	6	6	
Loan officers	16	16	
Teller staff	5	5	
Customers	10	10	
	40	40	

3.5 Sampling Method

The sampling method that was used in this research was the Census method. Mugenda and Mugenda (1999) defined sampling as a formulation of a procedure of selecting the subjects or cases to be included in the sample. In other words, a sampling method is a plan for obtaining a sample from a given population (Kothari, 2003).. The census method

allowed the researcher to collect information from the entire population. Cases of the population were considered because they possess the required information (Amin, 2003). The census method was used to select the respondents since the number of the respondents is small and hence manageable by the researcher. Therefore the study sample was 40 people.

3.6. Data sources

Data was collected from both primary and secondary sources. The primary data was collected from technical staff, about the various risks encountered by the bank and the measures put in place to manage them. Secondary data was obtained from the records kept by bank management, Bank of Uganda journals, and Bank of Uganda annual reports especially information about the performances of the banks for the current and past years.

3.7 Data collection methods

The survey method was used to meet the study objectives. It included the use of questionnaires, interviews and documentation analysis. All these exactly showed the reality and brought out the picture about the topic under study.

3.7.1 Questionnaire survey

The Questionnaire survey was an instrument consisting of a set of questions to which the subjects under the study responded to in writing. Like any good questionnaire, it was written in simple language which the respondents could easily follow and understand without much or no assistance. The questionnaire also included both open ended and closed ended questions; quantitative data was obtained by closed ended questions while qualitative data was obtained by open ended questions. Questions were anchored on a

Likert scale ,which was also used in order to examine how strongly the participants agree or disagree with these questions and also in order to avoid deviation in their answers that can lead to misunderstandings. In this way, the respondents were able to answer the questions without any difficulty and without devoting a lot of time. Moreover, this form of questionnaire was easily transformed into numerical design which is appropriate for the statistical analysis that this study needs. Besides, the Likert scale easily led the researcher to the calculation of the means and standard deviations of the answers (Pallant 2001).

3.7.2 Interview Survey

The interview survey was an instrument which consisted of a set of questions to which the subjects under study were to respond to verbally. Questions on the research objectives were developed by the researcher. During the survey, qualitative data was collected from the respondents.

3.7.3 Documentary Review

Additional information was gathered through documentary review where a number of documents were reviewed. Documents on financial management at the global level were also reviewed to identify changes overtime in organizational performance.

3.8. Data Collection Instruments

The tools that the researcher used for collecting data included the following; self-administered questionnaire, interview guide and documentary review checklist.

3.8.1 Structured Questionnaire

The questionnaire was a carefully designed instrument for collection of quantitative data in accordance with the research questions and hypothesis. The justification for using this instrument was that it was less expensive and did not require the researcher to be present for the respondent to complete it. It was used to collect data from staff in the categories of relationship managers, loan officers and teller staff, because it is presumed that they have a higher level of literacy, and are able to read, understand and interpret the questions besides possessing the information required for the research. Attitude Scale (interval Likert Scale) was used to enable the respondents to select a statement that best described their reactions to the statements in the question. The interval Likert Scale questionnaire was designed on values assigned and ranked 5 to 1 in order of; 5-Strongly Agree, 4-Agree, 3-Neither Agree nor Disagree, 2-Disagree and 1-Strongly Disagree. The interval scale measurement of variables was adopted because it was recommended for measurement of variables of a study that sought to draw conclusions based on percentages of respondents response as opposed to the nominal scale which is recommended for mutually exclusive and interval variables (Sekaran, 2003). This scale was used to determine what an individual believes, perceives or feels about self, others, activities, institution or situation (Amin, 2005).

3.8.2. Interview Guide

An interview guide was used to collect qualitative data from key informants who comprise top managers and customers. Face to Face interviews were conducted. The interview guide was a good tool because it enabled the researcher to gather in-depth information around the topic to meet specific needs. The researcher was also able to

clarify unclear issues in the questionnaire to the respondent. This method was used to collect data from top level managers in the organization. This data assisted in clarifying data collected by the structured questionnaires since it involved a face to face interaction and it also provides a whole range of views.

3.8.3. Documentary Review List

A documentary review list was used to identify the source documents from which information about the study was acquired. This assisted in following the current debate on risk exposure and financial performance at the global scene.

3.9 Data Collection Procedure

The researcher acquired an introductory letter from the university which introduced her to management of Barclays bank to allow her to undertake research. She then introduced herself to the management of Barclays bank, where the study was carried out. After being granted permission, the researcher carried out a pilot study of the questionnaire and finally collected data from the respondents. The researcher personally distributed, administered and collected data from the respondents. The researcher collected the questionnaires which were completed left her contacts with the respondents who, when finished with the questionnaires contacted her when they were ready.

3.10 Quality Control Methods

In order to make sure that quality and relevant data was collected, the research instruments were tested for reliability and validity as follows;

3.10.1 Validity Test

According to Mugenda & Mugenda, (2003), the three techniques that can be used to validate data are; construct validity, content validity and criterion-related validity. Content validity is a measure of the degree to which data collected using a particular instrument represents a specific domain of indicators or content of a particular concept. Content validity can be assessed by using two different instruments which must measure the same concept. If the measurements are consistent with the theoretical expectation, then the data has construct validity. Validity was measured basing on a factor analysis which confirmed the dimensions of the concept that were operationally defined, to ensure appropriateness of results. According to Nunnally (1972), a value of 0.7 is acceptable when testing for validity. In the formula developed by Nunnally (1972), $CVI = (n_e - N/2) / (N/2)$, where CVI is Content Validity Index, n_e is the number of respondents; N is total number of respondents. The computed CVI of the instrument was 0.83. This was considered valid because the minimum CVI recommended in the survey studies is 0.7 as recommended by Amin, (2005).

3.10.2 Reliability

The research reliability was influenced by random error (Mugenda&Mugenda, 2003). He argued that random error arose from inaccurate coding; ambiguous instructions to the subjects, interviewer's fatigue and interviewer's bias to mention a few and these errors were deviations from a true measurement due to factors that were not addressed by the researcher. The researcher therefore ensured that the instruments minimize random error and hence increase the reliability of the data collected. In order to measure reliability, a score obtained in one item was correlated with scores obtained from other items in the

instrument. Cronbach's Coefficient Alpha was then computed to determine how items correlate among themselves. Reliability of the instrument was ascertained using the Cronbach's coefficient alpha (Cronbach's alpha (α) 0.6) test (Cronbach, 1946) to test for the internal consistencies of the scales used to measure the variables. From the results all the Cronbach alpha coefficients ranged from .786 to .875, therefore meeting the acceptable standards.

3.11. Data Processing and Analysis

Data from the field was compiled, sorted, edited and coded to have the required quality, accuracy and completeness. It was then entered into the computer with the facilitation of Statistical Package for Social Scientist (SPSS) for analysis. SPSS a data management and analysis program allowed the researcher to store and analyze very large amounts of data. The statistics that SPSS was capable of were far more complex than the statistics that could have been done in excel which made it more desirable as an analysis tool. Also, SPSS allowed the researcher to store data, protocols (syntax) and results (output) in separate files, which makes the analysis of large amounts of data much less cumbersome than excel. The data was cleaned and analyzed according to the research questions and frequency tabulations, item means, standard deviations, Pearson correlation and regression analysis are generated to describe the sample characteristics and the objectives of the study.

Qualitative data was analyzed using content analysis. It was a procedure for the categorization of verbal or behavioral data, for purposes of classification, summarization and tabulation. Content analysis involved coding and classifying data, also referred to as

categorizing and indexing and the aim of context analysis is to make sense of the data collected and to highlight the important messages, features or findings. Content analysis enabled the researcher to include large amounts of textual information and systematically identify its properties, such as the frequencies of most used key words by locating the more important structures of its communication content. Such amount of textual information was categorized to provide a meaningful reading of content under scrutiny.

3.12 Ethical Considerations

The following ethical considerations were observed when carrying out the research. Permission of the people who were studied was sought to conduct research involving them. This was done by attaining an introductory letter from the University which introduced the researcher to the management of the bank. Written or verbal informed consent from all respondents was sought before interviews were conducted and the purpose and objectives of the study were carefully explained to the respondents. The researcher was as careful not to cause physical or emotional harm to respondents and ensure objectivity during the research so as to eliminate personal biases and opinions. Likewise to ensure confidentiality of the respondents, the researcher designed the tools in such a manner where the respondent were not required to provide personal details such as names

3.13. Anticipated methodological constraints

A descriptive correlational study design requires researcher interpretation making phenomenological deductions an important component to reduce biases, assumptions and preconceived ideas about the research study. The challenge is that research bias is

difficult to determine and detect. In order to address this, the research pretested and reviewed the study instrument to ensure content validity.

Data gathering and analysis may become time consuming and laborious. To overcome this challenge the researcher will use the statistical software programme package to analyze data. Furthermore, data will be gathered sorted and coded using the Likert scale.

The researcher also anticipated difficulty in accessing participants. To overcome this, an introductory letter from the university research department was availed to the researcher.

The case study strategy may lead to generalization of the problem of risk exposures to all commercial banks which may not be the case. To mitigate this, a documentary review on the available literature on the research topic was undertaken.

CHAPTER FOUR
PRESENTING OF FINDINGS

4.0. Introduction

This chapter presents findings on the response rate and bio data on the respondents in terms of gender, age, tenure of employment and level of education. The researcher adopted frequency tabulations to present and discuss the results of the sample characteristic as indicated below. The data in chapter was categorical in nature which necessitated the use of tables and figures to ease the analysis process.

4.1. Response rate.

During data collection, out of the 40 questionnaires which were sent out to the field, 40 useable questionnaires were returned giving a response rate of 100%. Implying that the research gained the support and respondents were interested in the research

4.1.1 Respondents category by Gender

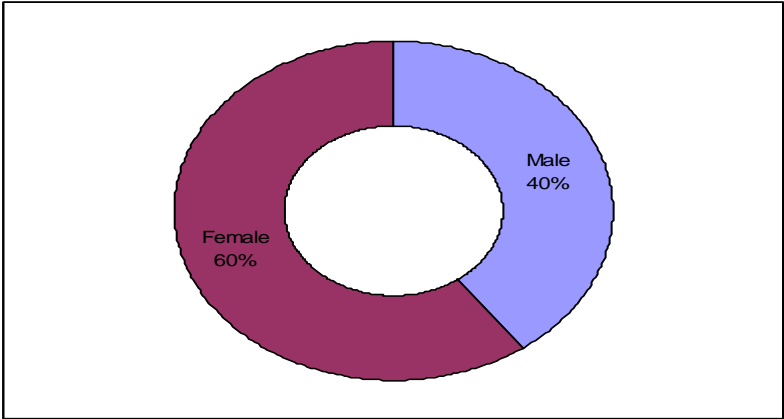
Frequency tabulation was used by the researcher to present the respondent category and gender distribution categories of the respondents. Table 3.1 below presents the results:

Table 4.1: Gender of respondents

		Frequency	Percentage
Valid	Male	16	40.0
	Female	24	60.0
	Total	40	100.0

Source: Primary data (2018).

From the results in table 4.1 above, the majority of the respondents were female (60%) and 40% were male. This implies that the majority of the respondents involved in risk exposure at the bank were female. The results are summarized in figure 4.1 below.



Source: Primary data (2018).

Figure 4.1: Gender Distribution

4.1.2. Age Group

Frequency tabulation was used by the researcher to present the age distribution of the respondents. Table 4.2 below presented the results:

Table 4.2: Age Respondent Distribution

		Frequency	Percentage
Valid	18-30	14	35.0
	31-40	18	45.0
	41-60	6	15.0
	61-70	2	5.0
	Total	40	100.0

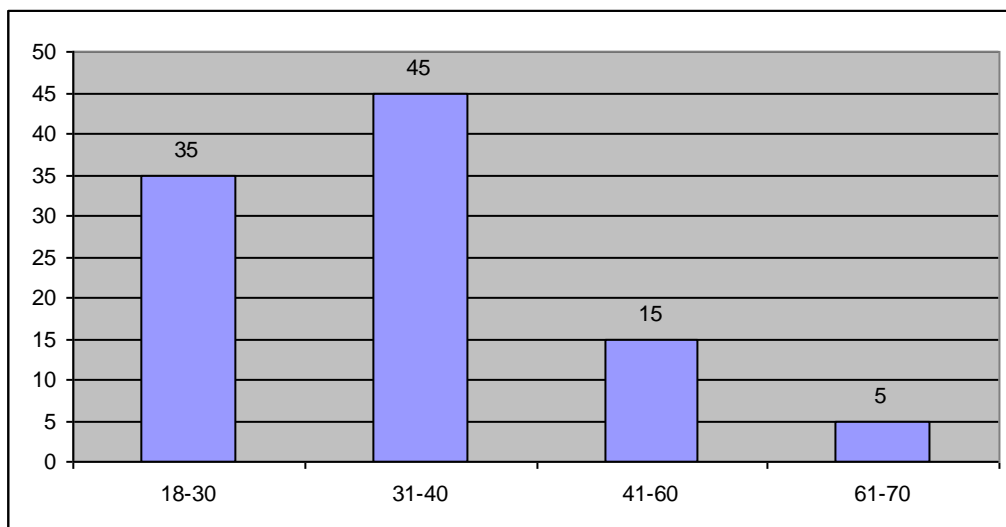
Source: Primary data (2018)

According to the results in table 4.2 above, the majority of the respondents (45%) were in the 31-40 years age group, followed by those in the 18-30 years age group with a percentage of 35%, then those in the 41-60 years (15%) and then those in the 61-70 years age group (5%). The results implied that the composition of the respondents was made up of staff that were mature enough and possessed the required experience to manage risk exposures at bank.

From the interview guide administered to the bank manager he revealed that;

“ this is the age group that the bank prefers and recruits most since they are normally hard working and resilient to handle task under pressure that is normally characterized by the banking business”.

From the results it is clear that the staffs were mature enough providing justification that they were not coerced to give information on the study and were able to provide the required information due to their vast experience on risk. The results are summarized in figure 3.2 below.



Source: Primary data (2018).

Figure 4.2: Age distribution
4.1.3. Level of Education

The frequency distributions were further used to examine the highest academic qualifications of the respondents and the results are presented in table 4.3 below.

Table 4.3: Respondent Category by Level of Education

		Frequency	Valid Percent
Valid	Diploma	4	10.0
	Degree	3	75.0
	And above	6	15.0
	Total	20	100.0

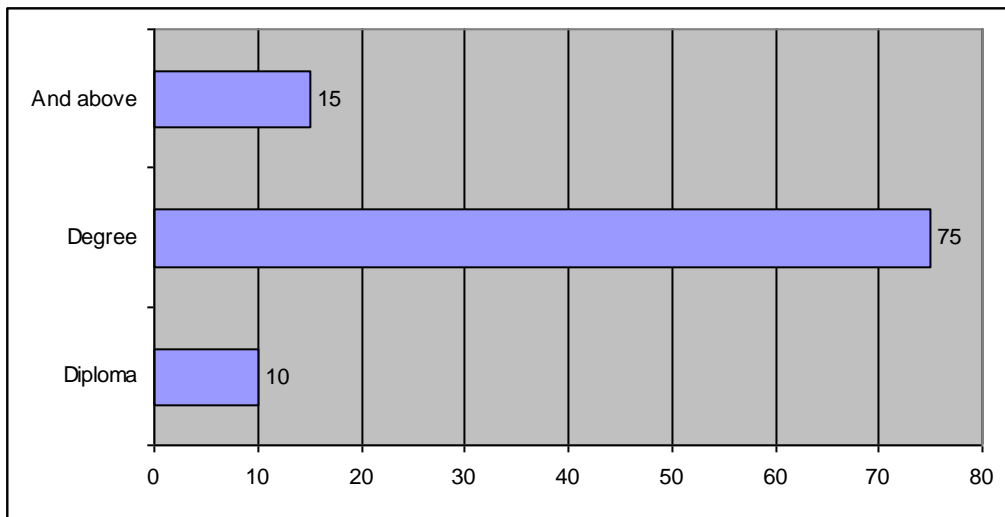
Source: Primary data (2018)

According to the results in table 4.3, 75% of the respondents were degree holders, 15% of the respondents held qualifications higher than degree level of education and 10% were diploma holders. From the findings, the majority of the responses were degree holders. This implies that data was collected from respondents who were able to read and understand and there after provide the required information for the study.

In support of the quantitative results, some of the respondents revealed that;

“Degree holders were recruited more in the bank than the other levels because they possess the required skills to run the activities in the bank without any problem and at an affordable cost by the bank. This was also supported by the fact that there are a lot of university degree holders who are jobless and they are willing to do any job at very little pay”.

From the results, it was revealed that the senior staff including the branch manager and relationship managers held masters, degree and professional qualifications whereas, for the operations and lower staff, these held diploma level of education. The results are summarized in figure 3.3 below.



Source: Primary data (2018).

Figure 4.3: Level of Education Distribution

4.1.4 Years of Employment

Frequency tabulation was used by the researcher to present the period of employment distribution of the respondents. Table 4.4 below presented the results

Table 4.4: Years of Employment

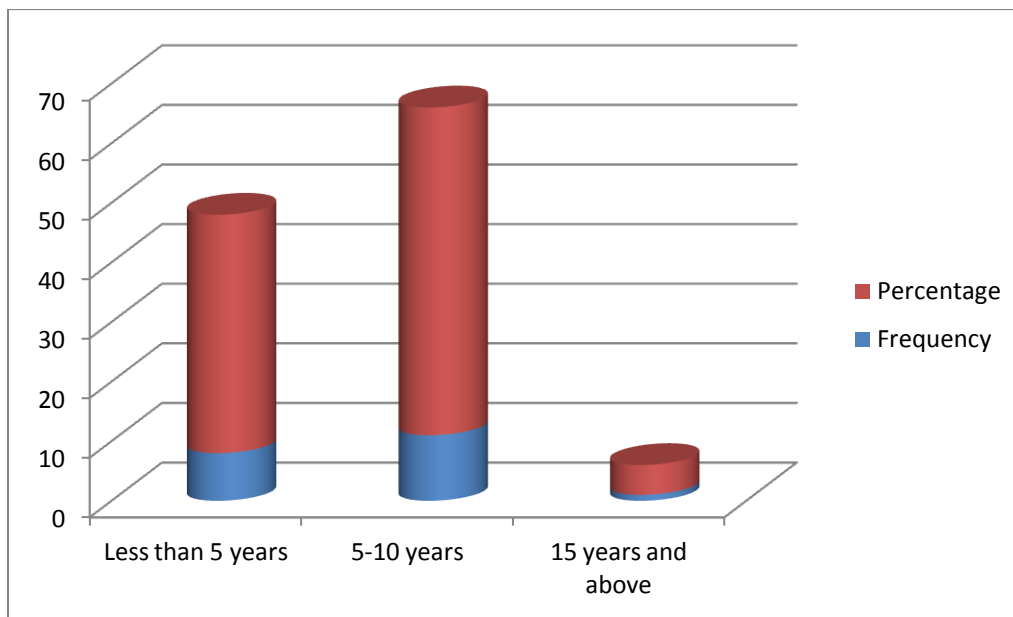
		Frequency	Percentage
Valid	Less than 5 years	16	40.0
	5-10 years	22	55.0
	15 years and above	2	5.0
	Total	40	100.0

Source: Primary data (2018)

From the results in table 4.4 above, it was observed that 55% of the respondents had worked with the bank for 5-10 years, 40% had been employed for less than 5 years and 5% had worked for 15 years and above. The qualitative results revealed that;

“many of their employees do not take a very long period serving the bank this is mainly attributed to the better salary and wages that are normally offered to these employees by other employers when they leave, and also due to the high pressure that is normally experienced in the banks coupled with a lot of exposure to the various forms of risks in the sector”.

This could imply that the majority of the staff at the bank had served the bank for at least 5 years or more was confirmation that they possessed the required experience. The results are summarized in figure 3.4 below.



Source: Primary data (2018).

Figure 3.4: Years of Employment

CHAPTER FIVE

CREDIT RISK EXPOSURE AND FINANCIAL PERFORMANCE

5.0 Introduction

This chapter contains a data presentation and interpretation of the findings on research question one of the study: What is the Effect of Credit Risk exposure on the financial Performance of Barclays Bank? The presentation in this chapter shows the results as tested according to the objectives of the study. To present the results of the study objectives and the effect of financial risk on organizational performance, a combination of Pearson correlation matrix and regression analysis were used.

5.1 Credit Risk

Using item means, the respondents' level of agreement and disagreement on each of the items of credit risk management were assessed at Barclays Bank. The items were rated on the 5 point Likert scale ranging from strongly disagree, disagree, not sure, agree and strongly agree. The findings are shown in table 5.1 below:

Table 5.1: Credit Risk exposure

Items	Min	Max	Mean	SD	Rank	Interpretation
Risky loan clients are charged high interest rate	1	5	3.76	.606	1	High
Relationship is established with reliable loan clients	1	5	3.69	.667	2	High
loan appraisal involves evaluating the loan client using 4 Cs	1	5	3.66	.716	3	High
The branch appraises loan customers before loan offer.	1	5	3.65	.831	4	High
New loan applicants are strongly appraised before loan award	1	5	3.60	.662	5	High
An adequate loan default provision is made	1	5	3.60	.638	6	High
Information on clients' behavior is accumulated for future use	1	5	3.55	.891	7	High
Credit officers' conduct regular loan client monitoring	1	5	3.52	.691	8	High
Loans are awarded basing on cash flow of the client	1	5	3.18	.695	9	Moderate
Loan clients are given enough grace period	1	5	3.05	.528	10	Moderate
Credit officers do not collude with the loan clients	1	5	2.82	.615	11	Moderate
Credit officers have all authority to give loans	1	5	2.32	.741	12	Moderate
Overall Mean			3.367			Moderate

Source: primary data 2018

From the results in table 5.1 above, the respondents agreed that as a result of credit risk, the bank appraised borrowers before loan offers (mean=3.65) and loan appraisals involved evaluating the loan clients using the 4 Cs (Mean=3.66). Similarly, risky loan clients were charged high interest rates (mean=3.76), relationship were established with reliable loan clients (Mean=3.69), adequate loan default provisions were made (mean=3.60) and new loan applicants were strongly appraised before loan award (mean=3.60). On a contrary, there was disagreement that credit officers had all authority to give loans (mean=2.32) and that they did not collude with the loan clients (mean=2.82).

In line with the results above, the branch manager was of the view that;

“Much as credit risk was eminent at the bank, management had done a lot to put in place the necessary internal control to mitigate risks relating to credit”. This is validated by the ranking of the mean which shows that the bank charges high interest rates on highly risky loans, maintaining relationships with reliable loan clients and appraising loan clients on the 4cs. However the less emphasis is being placed by reducing the chances of awarding loans based on cash flow, giving the credit officers the authority to award loans and collusion of loan officers with client. From the results on credit risk there was justification that the bank carried out credit risk exposure was managed much as there were still challenges of credit risk mitigation using the existing internal controls at the bank.

5.2.2 Effect of credit risk exposure on financial performance

To study the relationship between credit risk management and financial performance at the bank, the Pearson’s correlation test was used and the results are presented in Table 5.2 below.

Table 5.2: credit risk exposure and financial Performance

		Credit Risk exposure	Financial Performance
Credit Risk exposure	Pearson Correlation	1	-.665**
	Sig. (2-tailed)		.000
Financial Performance	Pearson Correlation	-.665**	1
	Sig. (2-tailed)	.000	
**.			Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data 2018

From the results in table 5.2 above, the correlation results indicated a significant and negative relationship between credit risk exposure and financial performance ($r = -0.665^{**}$, $p < .01$) and the regression results were also in support of the correlation results when they revealed that management of credit risk was a significant predictor of financial performance (Beta= -0.532, Sig. = 0.000). This implied that when there is reduction of credit risk through the existing internal controls used by the bank, this would enhance the effectiveness and efficiency of the bank.

CHAPTER SIX

MARKET RISK EXPOSURE AND FINANCIAL PERFORMANCE

6.0 Introduction

Financial Institutions have to be reminded that, the admissible threshold of market risk is the amount of potential unexpected loss which the bank is willing to assume because of unexpected and unfavorable changes in the market variables (Kim and Santomero, 1988). The admissible threshold of market risk should not exceed the losses which the bank can assume without disturbing its financial stability. The bank's ability to overcome losses caused by market risk depends on its capital and reserves, on the potential losses originating from other non-market risks and on the regulatory capital required for maintaining the business activity. Risk monitoring therefore, is fundamental for effective management process. This section presents findings and interpretations on the research question: What is the effect of Market Risk Management on the financial performance of Barclays bank?

6.1 Market Risk Exposure

When assessing the level of market risk as one of the financial risks at the bank, item mean results were generated on the different items used to assess market risk at Barclays bank. The items were ranked on a 5 point Likert scale and the results are presented in table 5.1 below:

Table 6.1: Market risk exposure

Items	Min	Max	Mean	SD	Rank	Interpretation
The bank monitors market risk at all times	1	5	4.00	.667	1	High
The bank is able to overcome losses because of its capital and reserves	1	5	3.82	.691	2	High
Interest rate risk has affected the bank's incomes and capital base.	1	5	3.82	.661	3	High
There is adequate financial reporting quality of risk	1	5	3.75	.819	4	High
The market exchange rates are favourable for the bank	1	5	3.72	.743	5	High
The currency risk of the bank has been rising in the recent past	1	5	3.70	.629	6	High
The current market interest rates favour the bank.	1	5	3.66	.731	7	High
Due to risk assumption, there is improvement in the bank's profits and share value.	1	5	3.66	.670	8	High
There is fluctuating interest rate risk at the bank	1	5	3.60	.633	9	High
Due to adverse movements in equity prices have contributed to the bank losses	1	5	3.45	.832	10	High
Management ensures that there is adequate regulatory capital for business activity	1	5	3.18	.694	11	Moderate
The price risk of the bank is stable	1	5	3.14	.679	12	Moderate
Costs of investments in trade portfolio are high	1	5	3.02	.612	13	Moderate
Overall Mean			3.578			High

Source: primary data 2018

The results on market risk in table 6.1 revealed that market exchange rates were favorable for the bank (mean=3.72), the bank was able to overcome losses because of its capital and reserves (mean=3.82), there was monitoring of market risk (mean=4.00) and there was adequate financial reporting quality of risk (mean=3.75). on the other hand, the currency risk of the bank was continuing to rise (Mean=3.70), interest rate risk was affecting the bank's incomes and capital base (mean=3.82), much as the interest rate risk was fluctuating (mean=3.60), there was

improvement in the bank's profits and share value due to risk assumption (mean=3.66) and the current market interest rates favoured the bank (mean=3.66).

However, one of the members of the risk management team revealed that;

“The bank had sound market risk management practices although they are not functioning as they are intended to; for example the finance personnel do not avail me with financial reports and other financial documents when I request for them”. This is validated by the ranking of the market risk means which shows that the bank has managed market risk exposures by regularly monitoring market risk all the time have adequate capital and reserve to overcome losses and having an adequate financial reporting on the quality of the risk. However the bank still grapples with high cost of investment on trade portfolio price risk and regulation of capital for running business activity.

This is justification that the bank was still facing market risk management challenges which were affecting the bank's performance, therefore, management needed to strengthen, improve existing internal controls and also adopt acceptable controls so as to mitigate market risks.

6.2 Effect of market risk exposure on financial Performance

To establish the relationship between market risk management and financial performance at the bank, the Pearson's correlation test was used and the results are presented in Table 5.2 below.

Table 6.2 Market Risk Exposure and Financial Performance

		Market Risk Management	Financial Performance
Market Risk Management	Pearson Correlation	1	-.405**
	Sig. (2-tailed)		.000
Financial Performance	Pearson Correlation	-.405**	1
	Sig. (2-tailed)	.000	
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Primary data 2018

According to the correlation results, there was a linear relationship between market risk management and financial performance ($r = -0.405^{**}$, $p < .01$). The implication was that there is a negative significant relationship between market risk and financial performance. The results were supported by the regression results in table 7.2 ahead which revealed that market risk management predicted financial performance (Beta = -.110; Sig. = .000). This implied that to realize effective and efficiency of bank performance, the management of the bank should ensure that market risk is controlled, reduced and or eliminated by putting in place the required internal controls to mitigate the risks that a rise from the market. The correlation results point to the fact that a reduction in market risk is paramount in ensuring the effectiveness and efficiency of bank performance.

CHAPTER SEVEN

LIQUIDITY RISK EXPOSURE AND FINANCIAL PERFORMANCE

7.0. Introduction

The risk management team of Barclays Bank should keep in mind that liquidity risk needs to be monitored as part of the enterprise-wide risk management process, taking into account market risk and credit risk to ensure stability in the balance sheet and dynamic management of liquidity risk. A bank should only attempt this if it makes good business sense, not use it as a means to keep afloat. Liquidity risk not only affects the financial performance of a bank but also its reputation (Jenkinson, 2008). A bank may lose the confidence of its depositors if funds are not timely provided to them. This chapter presents data findings and interpretations on research question three: What is the Effect of Liquidity risk management on the financial performance of Barclays Bank?

7.1 Liquidity Risk Exposure

The assessment of liquidity risk as one of the financial risks at Barclays bank was carried out using the item mean analysis so as to examine the level of agreement and disagreement by the respondents. Here, the items were anchored on a 5 point Likert scale ranging from strongly disagree, disagree, not sure, agree and strongly agree. The findings are shown in table 6.1 below:

Table 7.1: Liquidity Risk Exposure

Items	Min	Max	Mean	SD	Rank	Interpretation
Due to the rising risk, the bank's earnings and capital have been affected	1	5	3.97	.737	1	High
The bank's liquidity levels are well managed	1	5	3.89	.646	2	High
The bank can replace funds when they are required by customers.	1	5	3.77	.649	3	High
The bank's profits have been affected by the rising liquidity risk	1	5	3.74	.668	4	High
The bank is able to meet its payment obligations	1	5	3.69	.567	5	High
Liquidity problems at the bank have affected earnings and capital.	1	5	3.68	.643	6	High
There is growing customer confidence at the bank	1	5	3.65	.640	7	High
The bank's reputation has improved due to liquidity risk management	1	5	3.63	.537	8	High
In order to control liquidity crisis the bank borrows from the market.	1	5	3.58	.549	9	High
The bank's liquidity position is affected by size, status and product type	1	5	3.11	.539	10	Moderate
There is efficient monitoring of risk at the bank.	1	5	3.08	.636	11	Moderate
Liquidity risk has forced the bank to sell off some assets	1	5	3.05	.640	12	Moderate
Overall Mean			3.57			High

Source: primary data (2018)

The results on risk exposures in regard to liquidity risk in table 6.1 reveals that the bank's liquidity levels were well managed (mean=3.89), the rising risk had affected the bank's earnings and capital (Mean=3.97), the bank was able to replace customer deposits when they are required (mean=3.77) whereas, the bank's profits had been affected by the rising liquidity risk (mean=3.74). In the same manner, the bank was able to meet its payment obligations (mean=3.69), its reputation had improved due to liquidity risk management (mean=3.63), there was growing customer confidence (mean=3.65) and liquidity problems had affected earnings and capital (mean=3.68). The results point to the fact that the management of the bank had done enough to control, reduce and eliminate liquidity risk much as it was still encountering some

challenges of mitigating liquidity risk. The achievements made by the bank in reducing, controlling and eliminating liquidity risk had contributed to the bank’s profitability, liquidity levels, cost reduction, market growth and return on investment.

Although the bank has continuously been able to meet its daily obligations, it is still grappling with timely monitoring of risk exposures, liquidity has forced the bank to sell of its assets and generally the banks liquidity position is being affected by size, status and product.

7.2 Effect of Liquidity Risk Exposure on Financial Performance

To study the relationship between liquidity risk management and financial performance, the Pearson’s Correlation Test was used and the results were presented in Table 6.2 below.

Table 6.2: Liquidity Risk Exposure on Financial Performance

		Liquidity Risk	Organizational Performance
Liquidity Risk	Pearson Correlation	1	-.521 ^{**}
	Sig. (2-tailed)		.000
Organizational Performance	Pearson Correlation	-.521 ^{**}	1
	Sig. (2-tailed)	.000	
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Primary data

According to the correlation results, it was revealed that there was a significant negative association between liquidity risk and financial performance ($r = -0.521^{**}$, $p < .01$) which

was in line with the regression results which revealed that liquidity was a strong predictor of financial performance (Beta= -0.278, Sig. = 0.000). From the results, it was revealed that efforts by management had been made to put in place internal controls to mitigate risks arising as a result of liquidity mismanagement much as there were still challenges that hindered the effective and efficient delivery of the internal controls instituted to ensure financial performance.

7.3. Table Level of Risk Exposure

Level of Credit Risk	3.367	Moderate
Level of MR	3.578	High
Level of LR	3.57	High
Overall level of Risk Exposure	3.505	High

In conclusion the overall risk exposure of Barclays Bank Ndeeba Branch is 3.505 which is relatively high and therefore requires management to take proactive measures to mitigate the risk exposures.

CHAPTER EIGHT
HARMONISATION OF RISK EXPOSURE AND FINANCIAL PERFORMANCE AT
BACKLAYS BANK

8.0. Introduction

Under this chapter, the verification of the relationship between financial risk management and financial performance was carried out. The Pearson Correlation matrix was used to show the relationship between the two study variables. The results are presented in table 7.1 below.

Table 8.1: Risk exposure and financial Performance

Variables	Financial Risk Management	Financial Performance
Financial Risk Management	1.000	-.438**
Financial Performance	-.438**	1.000
<i>** Correlation is significant at the 0.01 level (2-tailed), p-value= 0.01</i>		

Source: Primary data

Correlation results indicated a strong significant and negative relationship between financial risks (credit risk, market risk and liquidity risk) and financial performance (profitability, liquidity, market growth, ROI and cost reduction) ($r = -.438^{**}$). This is confirmation that if the bank put in place efficient financial risk internal controls to control, reduce and eliminate credit risk, market risk and liquidity risk so as to enhance the bank's profitability, revenues, market growth, ROI and cost reduction. The

correlational results are supported by the regression results which revealed that credit risk, market risk and liquidity risk were significant predictors of bank performance.

In support of the quantitative results, the Branch manager also revealed that;

“At the moment the bank has done a lot to ensure that exposure are mitigated for the bank to remain competitive in the market”

This was reiterated by the credit manager and relationship managers who further affirmed that;

“the bank’s risk exposure practices are fairly sound but they are not functioning as they are intended to due to lack of proper controls mainly due to the continued evolution of technology and changing staff behaviors”.

In agreement of the assertions of the above, the BOU Quartely Report (2012) also pointed out that;

“bank had an uphill task to mitigate financial risk so as to remain competitive in the financial sector, that as a result of the effect of financial risks, this had forced some banks to close”.

However, the branch manager in regard to the financial performance of the bank revealed that;

“the bank was still performing well despite the current financial risk challenges facing the bank, although much still needed to be done for the bank to become more profitable”.

7.2 Testing Hypotheses.

There were two hypotheses of the study;

Ho: -There is statistically no significant relationship between risk exposure and the financial performance of Barclays Bank Uganda Limited.

H1: - There is a statistically significant relationship between risk exposure and the financial performance of Barclays Bank Uganda Limited.

A regression analysis was carried out to examine the extent to which the dimensions of risk exposures (credit risk, market risk and liquidity risk) predict financial performance of Barclays bank .This is in agreement with Anthony(1997) asserts that credit risk arises from non-performance of borrowers who are either unable or unwilling to perform in the precommitted contracted manner. The most profound impact of high non-performing loans in bank Portfolio is reduction in banks profitability especially when it comes to disposals. Encompassing credit risk are other related risks such as funding risk, interest risk, clearing risk and foreign exchange risk. International lending also involves country risk. BCBS (2006) points out that concentration of credit risk in asset portfolios has been one of the major causes of bank distress. This is true both for individual institutions as well as banking systems at large

Regression Analysis

The overall potential of credit risk, market risk and liquidity risk management to explain financial performance, were presented using the regression model in the table 7.2 below.

Table 8.2: Prediction Model for the Study Variables

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.845	.116		7.290	.000
Credit risk	.094	.044	-.532	2.138	.033
Market risk	.108	.045	-.110	2.404	.017
Liquidity risk	.548	.040	-.278	13.629	.000
Dependent Variable: Financial Performance					
R Square	.359				
Adjusted R Square	.356				
Sig.	.000				

Source: primary data(2018)

The model shows that a reduction in credit risk, market risk and liquidity risk would result into improvement of the bank's financial performance up to the tune of 35.6% (Adjusted R Square = .356). The regression model is reliable for making

recommendations and policy formulation, considering the 99% confidence level at which the model was significant. Credit risk was most influential at explaining financial performance (Beta =-.532, Sig. <.01), followed by liquidity risk (Beta =-.114, Sig. <.01) and then market risk (Beta =-.101, Sig. <.01). The regression model was statistically significant (sig. <.01). The results show that a reduction in credit risk, market risk and liquidity risk as financial risks at the bank was paramount in determining bank performance in terms of profitability, liquidity, cost reduction, market growth and ROI. Therefore, the management of the bank should draw a lot of emphasis on ensuring that credit risk, market risk and liquidity risk are properly managed and mitigated so as to enhance the financial performance of the bank.

Model

$$FP= 0.845 - 0.094 CR - 0.108MR - 0.548 LR+e$$

Where OP= Financial Performance; CR=Credit Risk; MR= Market Risk; LR=Liquidity Risk and e=error

7.3. Discussion of findings

According to the results, there was a linear relationship between credit risk, market risk, liquidity risk and financial performance.

The Pearson's correlation coefficients for the three risk exposures indicate that

There is a strong negative significant relationship between credit risk and financial performance where ($r= 0.665$, $p=0.000$). This implies that as credit risk exposure increases, the financial performance of the Bank declines and vice versa.

There is a weak negative relationship between market risk and financial performance of the bank where ($r = -0.455$, $p = 0.000$). This implies that although market risk affects the financial performance of the bank, it is still able to withstand the prevailing market conditions and continue meeting its daily obligation.

There is a moderately negative relationship between liquidity risk and financial performance of the bank where ($r = 0.521$, $p = 0.000$). This implies that when liquidity risk increases, the bank's financial performance will be greatly affected in terms of profitability, returns on assets, market growth, and capital adequacy.

The overall risk exposure of Barclays bank was 3.57 which implies that credit risk has a significant impact on the overall financial performance of the banking industry and it should therefore be managed effectively for the sustainability of the banking industry.

The results above led to accepting the alternative hypothesis; that there is a positive significant relationship between risk exposure and the financial performance of Barclays Bank Uganda Limited. The Null was rejected in that case.

In line with Athansoglou et al (2005) who emphasized that the bank's ability to overcome losses caused by market risk depends on its capital and reserves, on the potential losses originating from non-market risks and the regulatory capital requirement for maintaining the business activity. Risk monitoring is the fundamental for effective management process. That is the reason why the banking institutions should have adequate internal reporting systems reflecting their exposures to market risk. Sufficiently detailed regular reports should be submitted to the top management and to various management levels.

In summary, liquidity risk needs to be monitored as part of the enterprise wide spread risk management process, taking into account market risk and credit risk to ensure stability in the balance sheet and dynamic management of liquidity risk. Liquidity risk does not only affect performance of the bank but also its reputation (Jenkins on, 2008). A bank may lose the confidence of its depositors if funds are not timely provided to them. The maturity transformation of short term deposits into long term loans makes banks inherently vulnerable to liquidity risk (Basel committee on banking supervision, 2008)

CHAPTER NINE

CONCLUSIONS AND RECOMMENDATIONS

9.0 Introduction

This chapter presents, conclusions, and recommendations arising out of the research findings in chapter four, five, six and seven. Suggestions on areas that can be studied in future are also presented in this chapter.

9.1.1. Conclusions

The findings revealed that credit risk was significant and negatively related to financial performance. The correlation results are supported by the regression results which revealed that a reduction in credit risk was a determinant of bank performance. This was in agreement with Bessis' (2002) assertions which revealed that credit risk is critical given that the default of a small number of important customers can generate large losses, which can lead to insolvency. Anthony (1997) asserts that credit risk arises from non-performance by borrowers who are either unable or unwilling to perform in the pre-committed contracted manner. The most profound impact of high non-performing loans in banks portfolio is reduction in the bank profitability especially when it comes to disposals. Much as credit risk was eminent at the bank, management had done a lot to put in place the necessary internal control to mitigate risks relating to credit". This is validated by the ranking of the mean which shows that the bank charges high interest rates on highly risky loans, maintaining relationships with reliable loan clients and appraising loan clients on the 4cs. However the less emphasis is being placed by reducing the chances of awarding loans based on cash flow, giving the credit officers the authority

9.1.2 Market Risk Exposure and financial Performance

From the findings it was revealed that there was a weak negative significant relationship between market risk and financial performance. But this depended on whether there were effective and efficient internal controls to reduce market risk. The correlation results were supported by the regression results which revealed that a reduction in market risk was a determinant of financial performance. According to Athanasoglou et al. (2005), the bank's ability to overcome losses caused by market risk depends on its capital and reserves, on the potential losses originating from other non-market risks and on the regulatory capital required for maintaining the business activity. Risk monitoring is the fundament for effective management process. That is the reason why the banking institutions should have adequate internal reporting systems reflecting their exposure to market risk. Sufficiently detailed regular reports should be submitted to the top management and to the various management levels.

9.1.3 Liquidity Risk management and financial Performance

The findings showed a moderate negative significant relationship between liquidity risk and financial performance. The regression results are in support of the correlation which revealed that controlling liquidity risk determined the performance of the bank. This risk can adversely affect both banks' earnings and the capital and therefore, it becomes the top priority of a bank's management to ensure the availability of sufficient funds to meet future demands of providers and borrowers, at reasonable costs. Liquidity risk needs to be monitored as part of the enterprise-wide risk management process, taking into account market risk and credit risk to ensure stability in the balance sheet and dynamic management of liquidity risk. Liquidity risk not only affects the performance of a bank but also its reputation (Jenkinson, 2008). A bank may lose the confidence of its depositors if funds are not timely provided to them. The bank's reputation may become at stake in this situation. The maturity transformation of short-term deposits into long-term loans

makes banks inherently vulnerable to liquidity risk (Basel Committee on Banking Supervision, 2008). There for although the bank has continuously been able to meet its daily obligations, it is still grappling with timely monitoring of risk exposures, liquidity has forced the bank to sell of its assets and generally the banks liquidity position is being affected by size, status and product.

9.2. Recommendations

The findings revealed that credit risk impacted on the performance of the bank. Therefore, management should be committed to ensure that the credit risk assessment processes are not abused by staff and are adhered to by all concerned staff. As this is the medium through which clients' illegibility is assessed when extending credit to them. The management of the bank should strengthen the credit control function through instituting effective and efficient internal controls as a means of reducing nonperforming assets. This should be supported by stringent measures that discourage loan default and deviant behaviors from staff. Similarly, to realize efficiency in the performance of the bank, the management of the bank should draw a lot of emphasis on credit monitoring and evaluation as a way of assessing the performance of the credit portfolio.

In order to achieve desired levels of market risk management, there is need to learn from previous occurrences as a means of not repeating the same mistakes or using the experiences to predict the future occurrences. The findings revealed gaps during market risk mitigation such as, lack of consistency in procedures, lack of meaningful and timely data and inadequate controls. The management of the bank should put in place strict measures which put a lot of emphasis on understanding market trend so as to manage market risk depending on the market changes.

In order to ensure that there is prudent level of liquidity in the bank; management should enhance the existing internal controls used by the bank to mitigate financial risks. Therefore, the management should develop a right awareness and positive attitude towards the importance of these internal controls. Thus much emphasis should be put on implementation of these policies and procedures in the bank. There is also a need to constantly and consistently assess the effectiveness of the design and operation of the control system hence calling for management's close monitoring, and supervision of different departments' operations, management should identify the training needs of the staff in the areas of financial risk management and offer specialized training to the staff. This will create insights on how the bank can manage financial risks at the different stages in the bank. The management should also provide a platform on which stakeholders will be involved in the management of financial risks as this would enhance the effectiveness and efficiency of the bank. Management of the bank should also put emphasis on ensuring that monitoring and evaluation systems are in place so as to mitigate financial risks arising from liquidity. Early detection of financial risks mitigates the risk of loss and this should be clearly emphasized by the management of the bank. Therefore, to ensure desired bank performance, management should put in place adequate internal controls to help reduce, control and eliminate financial risks which come as a result of credit, market and liquidity challenges.

9.3. Areas for further study

Other recommended areas of study could be;

The impact of other forms of risks besides credit risk, liquidity risks and market risk on organizational performance.

A longitudinal study should be done in the area of risk management process and the financial performance of commercial banks

A similar study may be carried out on other banks and financial to assess the relationship between credit risk, liquidity risk, market risk and financial performance.

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APPENDIX I
QUESTIONNAIRE

Dear respondent,

I am Grace AmodingByamukama, a student at Nkumba University. I am carrying out a research study on “**Financial Risk Management and financial Performance of the Banking industry in Uganda: A Case Study of Barclays Bank Uganda Limited**”. The study is being conducted in fulfillment of the requirement for the award of a degree of Master of Business Administration. This questionnaire is seeking information on the study. Therefore the information provided in this questionnaire will be used for academic purposes only and shall be accorded utmost confidentiality. Therefore, your contribution towards filling in this questionnaire will be a great contribution to my academic endeavor.

Thank you.

Section I: Bio Data

1. Gender

Male	Female

2. Age of the Respondent

18 – 30yr	31-40 yrs	41-60 yrs	61-70yrs

3. Tenure of employment

Less than 5year	5- 10yrs	10-15yrs	15 and above

4. Level of education attained

Certificate	Diploma	Degree	Masters	Others

Section II: Credit Risk Exposure

Please indicate the extent to which you agree or disagree with the statements below using a tick

√

Key: 1=SD-Strongly Disagree; 2=D-Disagree; 3=NS- Not Sure; 4=A-Agree and 5=SA-

Strongly Agree

Items	SD	D	NS	A	S A
The branch appraises loan customers before loan offer.					
loan appraisal involves evaluating the loan client using 4 Cs					
Credit officers have all authority to give loans					
Credit officers do not collude with the loan clients					
Credit officers conduct regular loan client monitoring					
Loan are awarded basing on cash flow of the client					
New loan applicants are strongly appraised before loan award					
Information on clients' behavior is accumulated for future use					
An adequate loan default provision is made					
Risky loan clients are charged high interest rate					
Relationship is established with reliable loan clients					
Loan clients are given enough grace period					

Section III: Market Risk exposure

Please indicate the extent to which you agree or disagree with the statements below using a tick

√

Key: 1=SD-Strongly Disagree; 2=D-Disagree; 3=NS- Not Sure; 4=A-Agree and 5=SA-

Strongly Agree

Items	SD	D	NS	A	S A
Due to adverse movements in equity prices have contributed to the bank losses					
The current market interest rates favour the bank.					
The market exchange rates are favorable for the bank					
Costs of investments in trade portfolio are high					
The bank is able to overcome losses because of its capital and reserves					
Management ensures that there is adequate regulatory capital for business activity					
The bank monitors market risk at all times					
There is adequate financial reporting quality of risk					
There is fluctuating interest rate risk at the bank					
Due to risk assumption, there is improvement in the bank's profits and share value.					
Interest rate risk has affected the bank's incomes and capital base.					
The currency risk of the bank has been rising in the recent past					
The price risk of the bank is stable					

Section IV: Liquidity Risk Exposure

Please indicate the extent to which you agree or disagree with the statements below using a tick

√

Key: 1=SD-Strongly Disagree; 2=D-Disagree; 3=NS- Not Sure; 4=A-Agree and 5=SA-

Strongly Agree

Items	SD	D	NS	A	S A
The bank is able to meet its payment obligations					
The bank replace funds when they are required by customers.					
The bank's liquidity levels are well managed					
Due to the rising risk, the bank's earnings and capital have been affected					
There is efficient monitoring of risk at the bank.					
The bank's reputation has improved due to liquidity risk management					
There is growing customer confidence at the bank					
The bank's liquidity position is affected by size, status and product type					
The bank's profits have been affected by the rising liquidity risk					
Liquidity problems at the bank have affected earnings and capital.					
In order to control liquidity crisis the bank borrows from the market.					
Liquidity risk has forced the bank to sell off some assets					

Section V: Financial Performance

Please indicate the extent to which you agree or disagree with the statements below using a tick

√

Key: 1=SD-Strongly Disagree; 2=D-Disagree; 3=NS- Not Sure; 4=A-Agree and 5=SA-

Strongly Agree

Items	SD	D	NS	A	SA
Clients service loans as required					
Customers meet loan repayment schedules as required					
Many of the bank/institution 's customers delay to repay their loans					
The bank/institution puts in effort to recover loans from defaulters					
The bank succeeds in recovering loans from defaulters					
The bank/institution has many unpaid up loans					
The financial position of our bank has improved over the last 3 years					
Over the last 3 years the profits of our bank have been steadily increasing					
Over the last 3 years the profit margins of our bank have increased					
The return on investment has increased over the last three years.					
At our bank the total cost of operation is reducing over the years					
The loan portfolio contributes a big share of the bank's profits					
The financial position of the bank/institution has improved over the last 3 years					
The revenue of the bank/institution have increased over the last 3 years					
The bank/institution 's loan collection rate is desirable					
Loan capital is readily available for disbursement					

The revenue levels of the bank have been growing over the last 3 years					
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Thank you

APPENDIX II

INTERVIEW GUIDE

Section A: Background Information

Interviewee Number: -----

Gender of respondent: -----

Age of the respondent: -----

Level of education: -----

Tenure of employment: -----

Section B: Interview Questions

1. Is the bank facing any risk exposure?
2. What are some of the risk exposures the bank is finding?
3. How has the bank mitigated/ managed the risk exposure?
4. Have the risk exposure affected the performance of bank?
5. What are some of the strategies put in place to manage risk exposure at the bank?
6. Has the bank been able to manage risk exposure?
7. What other recommendations do you advise the bank to put in place in order to mitigate the risk exposure?
8. In your view has the management of the bank done enough to eliminate risk exposure in work processes of the bank?

APPENDIX III

DOCUMENTARY REVIEW CHECKLIST

Documents Reviews

Key: A- Always, F=Frequently, O=Occasionally, R=Really, N=Never

Barclays Bank Policy and Reports					
Are there well documented financial risk policies?	<i>A</i>	<i>F</i>	<i>O</i>	<i>R</i>	<i>N</i>
Do staff meet set targets?	<i>A</i>	<i>F</i>	<i>O</i>	<i>R</i>	<i>N</i>
Mandate of the bank	<i>A</i>	<i>F</i>	<i>O</i>	<i>R</i>	<i>N</i>
What is the overall bank performance?	<i>A</i>	<i>F</i>	<i>O</i>	<i>R</i>	<i>N</i>
Meeting minutes					
Is there a policy of credit risk?	<i>A</i>	<i>F</i>	<i>O</i>	<i>R</i>	<i>N</i>
Is there a policy on market risk?	<i>A</i>	<i>F</i>	<i>O</i>	<i>R</i>	<i>N</i>
Is there a policy on liquidity risk?	<i>A</i>	<i>F</i>	<i>O</i>	<i>R</i>	<i>N</i>
Is business on risk exposure discussed by management?	<i>A</i>	<i>F</i>	<i>O</i>	<i>R</i>	<i>N</i>
Journal articles					
Is there discussion on risk exposure?	<i>A</i>	<i>F</i>	<i>O</i>	<i>R</i>	<i>N</i>
Is there a relationship between risk exposure and bank performance?	<i>A</i>	<i>F</i>	<i>O</i>	<i>R</i>	<i>N</i>