
**RISK EXPOSURE AND FINANCIAL PERFORMANCE ON THE BANKING INDUSTRY IN
UGANDA A CASE OF CENTENARY BANK IN RUBIRIZI**

DISTRICT

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ABSTRACT

The study focused on risk exposure and financial performance on the banking industry in Uganda a case of centenary bank in Rubirizi district. The study was guided by the following objectives; to examine the effect of credit risk management and the financial performance in centenary bank Rubirizi district, to investigate the effect of market risk management and financial performance in centenary bank Rubirizi district, and to establish the contribution of liquidity risk management and financial performance in centenary bank Rubirizi district. 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 analyse the quantitative data collected through the questionnaires and content analysis was used to analyse 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. The study therefore recommends, that since the model could not determine the variance of financial performance at centenary 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.

Key words: risk exposure, financial performance and banking industry

Background of the study

Risk is a concept that indicates a potential negative impact on some characteristic of value that may result from a future event, or we can say that risks are events or conditions that may occur and the occurrence of which, if it occurs, has a harmful effect. or negative affect (Alex & Kazaara, 2023). Financial institutions have struggled over the years for many reasons; the main 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 may lead to a deterioration in the creditworthiness of the bank's counterparties (Kazaara & Christopher, 2023). Performance is driven in part by organizational capacity, which we now understand as existing in seven core areas: strategic leadership, human resources, financial resources, infrastructure, programming and process management, and inter-institutional linkages (Frank et al., 2023). In the case of Uganda, the financial sector has undergone several reforms aimed, among other things, at improving risk management (Viola et al., 2023). Reforms in this sector have resulted in the creation of a risk management framework that is now operational in all commercial banks including Centenary Bank (Faridah et al., 2023). The latest takeover of the Catholic local bank, Centenary Bank, has given it the distinction of being the second largest commercial bank in Uganda with a total of over 80 branches and ATMs spread across the country. Failure to manage risk has been identified as a major problem facing institutions (Ramadhan et al., 2023). Despite having a robust risk management framework in place, the bank continues to experience continuous bank fraud, no due diligence and deliberate non-compliance (Oromo et al., 2023). This document covers the oversight of Centenary bank's board, senior management and risk management group over primary risk, credit risk, market risk and liquidity risk, which underpins the Barclays Bank risk exposure and financial performance study (Akankwasa et al., 2022).

Problem statement

Financial risk is a very instrumental element that Centenary Bank Uganda Limited should take seriously if they are to prosper. This is a general problem that the banking sector in Uganda still faces today (Racheal, Kazaara, et al., 2023). Although the bank is trying to work very hard to control and avoid these risks, it is not successful yet because their operations are still heavily affected by various forms of risks. In addition, the bank usually calculates annual returns from bank fees (Paul et al., 2023), but these always reflected a large negative deviation from reality. As a result, Centenary bank Uganda Limited suffered impairment losses on its loans and advances, marketing and advertising costs that did not match annual revenues, and declining income from both bank fees and banking agencies (Polycarp et al., 2023). (Centenary Bank - Uganda Annual Report 2017/18), this has seen poor performance due to declining profits (Polycarp et al., 2023), low liquidity, budget overruns and slow growth which persist. Despite management's efforts to reduce, control and eliminate default risk, market risk and liquidity risk, if the above is not well addressed in the future, it will continue to slow down the bank's performance and thus the financial distress and its consequences (Godfrey et al., 2023). The study therefore seeks to identify and explore the effects of risk exposure on financial performance in the banking industry.

Specific objectives of the study

- To examine the effect of credit risk management and the financial performance in centenary bank Rubirizi district.
- To investigate the effect of market risk management and financial performance in centenary bank Rubirizi district.
- To establish the contribution of liquidity risk management and financial performance in centenary bank Rubirizi district.

Methodology

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. The study was conducted at Centenary bank Rubirizi branch in Rubirizi district, western region of Uganda; the region consists of many financial institutions (Richard et al., 2022). However, western region is too wide hence the researcher concentrated on Centenary bank in particular Rubirizi branch because of its close proximity to the researcher. The study population consisted of 40 respondents, comprising of 1 branch manager, 2 team leaders, 6 relationship managers, 16 loan officers, 5 teller staff and 10 customers. The sampling method that was used in this research was the Census method. Mugenda, (2017) defined sampling as a formulation of a procedure of selecting the subjects or cases to be included in the sample. Quantitative data analysis was done using computer software, Ms Excel and SPSS (Nelson et al., 2022). Descriptive frequency tables for social demographic characteristics like gender, age and educational level was also used. Data collected was analysed using both

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interpretive and statistical methods. Correlation was used to relate ICT with service delivery and customer satisfaction.

RESULTS

Table 1: Credit Risk exposure

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

Source: Field Data 2021

From the results in table 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).

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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) (Ronet et al., 2023).

Table 2: 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 favorable 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

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Costs of investments in trade portfolio are high	1	5	3.02	.612	13	Moderate
Overall mean			3.578			Moderate

Source: Field Data 2021

The results on market risk in table 2 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) (Victor et al., 2022), 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).

Table 3 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			Moderate

Source: Field Data 2021

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) (Polycarp et al., 2023). 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) (Racheal, Enock, et al., 2023). 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.

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' (2020) 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 (2017) asserts that credit risk arises from non-performance by borrowers who are either unable or unwilling to perform in the pre-committed contracted manner.

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 behaviours 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.

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