ST. MARY'S UNIVERSITY

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MBA PROGRAM

Risk Management Practices in Banking Sector in Ethiopia: The Case of Awash Bank S.C.

By

Ermias Gebretatyos

November, 2021

Addis Ababa, Ethiopia

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Ermias Gebretatyos Gebrehiwot

Advisor: Tiruneh Legesse (Asst. Professor)

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DECLARATION

I declare that this thesis entitled "Risk Management Practices in Banking Sector in Ethiopia: The Case of Awash Bank S.C." is my original work, has not been presented for degree in any other university and that all sources of materials used for the thesis have been duly acknowledged.

Declared by: Ermias Gebretatyos

Signature: ______________

Date: _________________

This research project has been submitted for examination with my confirmation as a supervisor to the candidate.

Advisor: Tiruneh Legesse (Asst. Professor)

Signature__________________

Date_________________

ST. MARY'S UNIVERSITY
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CERTIFICATE

Risk Management Practices in Banking Sector in Ethiopia: The Case of Awash Bank S.C.

By
Ermias Gebretatyos

Name and signature of members of the examining board

______________________________ ______________________________

Dean, Graduate studies **Signature & Date**

______________________________ ______________________________

Advisor **Signature & Date**

______________________________ ______________________________

External Examiner **Signature & Date**

______________________________ ______________________________

Internal Examiner **Signature & Date**

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List of acronyms

GDP	Gross Domestics Product
IMF	International Money Fund
NBE	National bank of Ethiopia
ROA	Return of Asset
SBP	State Bank of Pakistan
SPSS	Statistical Packed for Social Science
S.C.	Share Company
TRNC	Turkish Public of North Cyprus
VaR	Value at Risk

ABSTRACT

The purpose of this study is to empirically examine the Risk management practice in Awash bank SC. The study is used descriptive survey method and applies a mixed method research strategy for each stratify as representative sample *by taking the quantitative method as the major component, while the qualitative method plays a supplementary role. Data was collected from Awash bank S.C. Permanente staff and analysis was carried out using descriptive statistic supporting by SPSS v 23. Based on the descriptive and analytical analyses results of the questionnaire data, Likewise, the overall usefulness of the risk management practices in Awash bank SC is found well prefund by the managing credit risk based on the empirical data analysis. This thesis unveils higher mean of agreement between the managing market risk and the risk management practices. These results indicate that the managing liquidity risk is also another valuable aspect to improve the usefulness of the risk management practices Awash bank SC. Furthermore, the descriptive statistics result stated that managing liquidity risk with the risk management practices has been found and endorses that it is important for the management to give more consideration to deal with the liquidity risk in order to bring improvement in the risk management practices of local banks. This study further confirms the role of managing operational risk in the whole banking risk management approach and has found moderates of implementations of the managing operational risk and the risk management practices in Awash bank SC is strongly minimized its credit risk. Therefore, the banking sector and other related sectors should be introduced with the necessary work to be completed on this subject, nonetheless by making a start with the determination of the road maps and national initiatives.*

Key Terms: Risk management, Bank, awareness

CHAPTER ONE

INTRODUCTION

1.1. Backgrounds of the Study

Risk management in banking is theoretically defined as "the logical development and execution of a plan to deal with potential losses". Usually, the focuses of the risk management practices in the banking industry are to manage an institution's exposure to losses or risk and to protect the value of its assets. In general banking business is regarded as risky business (Abbas, Tahir and Mutee-ur-Rahman, 2012).

Economic theory suggests that there are two economic units – surplus unit and deficit unit -and these economic units prefer to use financial institutions (intermediaries) to transfer the necessary funds to each other. Certainly, this process increases the importance of the financial intermediaries in the economy, but also poses some risks to these institutions (Abu Hussain and Al-Ajmi, 2012).

Economic units usually prefer to use intermediaries because of the problems associated with asymmetric information. In order to solve the asymmetric information problems, institutions are recruiting skilled employees and systems that are why the scarce sources of funds are now used more effectively by units in the economy.

Therefore, the funds are channeled to the most valuable projects that are beneficial to the economy (Aebi, Sabato and Schmid, 2012). However, this process of channeling funds from one unit to another naturally has some inherent risks within the process. Banks are usually managing those risks are part of their normal operations.

Banks establish risk management departments in order to operate their risk management systems efficiently. The risk management department in a bank ensures that the bank's risks are jointly monitored. It also aims to maintain the risk profile of a bank within the predetermined limits (BIS, 2003). The techniques for measuring, controlling, and managing the various types of risks

have been evolving over the last three decades. Asset and Liability Management techniques, such as gap and duration analysis, have been in use since the 1970s to mainly hedge against interest rate risk (Cornet and Sounders, 1999). Various financial risks that appeared as a result of liberalization and the globalization of the financial markets raised the need for developing more innovative risk management tools, such as the standardized approach, value at risk (VaR), back testing and stress testing. These risk management tools are now used worldwide in measuring and managing banking risks (BIS, 1996; 2005).

Banks will be challenged by different types of risk which include credit risk, interest rate risk, liquidity risk, market risk, off-balance sheet risk, Foreign exchange risk, country or sovereign risk, technology risk, insolvency risk and operational (Sanders and cornett 2008). For every bank existence and success risk management plays a fundamental role. Above all risks, since a large portion of fund invested in the form of credit and large portion of income generated from loan, credit risk gets most attention. According to Colquitt (2007) credit risk arises whenever a lender was exposed to loss from a borrower, or counter party who fails to honor their contracted debt obligation, as agreed, in a timely manner.

Past experience shows that a rapid build- up of bad loans plays a crucial role in banking crises. A sound financial system, among other things, requires maintenance of a low level of non-performing loans which in turn facilitates the economic development of a country. High level of nonperforming loan is linked with banks failures and financial crisis. Failure in one bank might lead to run on bank which in turn has contagious impact affecting the whole banking industry as has recently been experienced in the USA and other parts of the world. Though the recent financial crisis began with Fannie Mae and Freddie Mac, US banks, it rapidly spread from Wall Street to the rest of world economies (Jhamb and Prasad, 2012).

The above discussion highlights that an opportunity is available to conduct a dedicated study in the area of risk management of banks in Ethiopia. Therefore, this research intends to explore the and addressing the full range of risk Analysis and particularly in examining the risk management of Awash Bank SC in Ethiopia.

1.2. Statements of the Problem

Risk management is critical for a bank's profitability and health. Regulators are also concerned about the financial system's safety and soundness. The Committee establishes worldwide standards and recommendations for national regulators to use in assessing and supervising their banking systems. Banks must prioritize risk management in order to stay on top (and ahead) of the various critical risks they face every day (Fayyaz, 2006).

Nevertheless, the focus given to Ethiopian banking sector is comparatively low despite the fact that the health of the banking sector determines the overall health of the economy in most government and some private bank industries (National Bank of Ethiopia. 2012).

Moreover, to design a rigor bank risk management system, empirical studies which show the existing management practice and factors responsible for credit risk are important; however, such types of studies are scantly available in the least developing countries like Ethiopia. Since the previous research indicating how banking industry in Ethiopia is highly relayed on providing traditional service, accepting deposit and credit provision, how the bank sector mostly affecting Credit and liquidity risk. For example, studies such as (Asfaw & Veni, 2015; Tehulu & Olana, 2014; and, Lelissa, 2014) were conducted in the case of Ethiopia. However, all of them were focused on identifying bank specific factors.

According to a survey conducted by the National Bank of Ethiopia (NBE), which considers both bank specific internal and external factors, credit risks perceived as one of the dominant risks in the industry (NBE, 2019). In the last five years Awash Bank SC found affected by the problem of risk management and has lack of techniques required for handling those risk associated with to the bank. In this regard, this study will serve in filling this gap. The motivation of this study is, therefore, to identify the Bank risk management practice that contributing to the credit risk of Ethiopia private banks.

As risk is uncertainty, it can be minimized using different methods. Increasing productivity has become the major strategy goal of many organizations. In order to increase productivity, the management of Awash Bank S.C. should manage risk associated with the bank such as credit risk, liquidity risk (Fayyaz, 2006); interest rate risk, Market risk, operational risk, legal risk and

reputational risk (Fernando and Nimal, 2018). The above discussion highlights that an opportunity is available to conduct a dedicated study in the area of risk management of banks in Ethiopia. Moreover, most of previous studies have employed either of quantitative and qualitative approach. However, in this study mixed method is employed to benefit from both approaches simultaneously.

Therefore, this research intends to explore the above potential research gaps by addressing the full range of risk factors and particularly in examining the relationship between risk management and performance.

1.3. Research Questions

The study attempts to answer the following research questions

1) What is the awareness of the different risks and risk management among the managers of Awash Bank S.C.?
2) What is the level of level of risk management practice in Awash Bank S.C.?
3) What are the challenges the bank is facing with regards to the risk management practice in Awash Bank S.C.?

1.4. Research Objective

1.4.1. General Objective

The primary objective of this objective is to examine the risk management practices of awash bank SC.

1.4.2. Specific Objective

For this purpose, this study has the following Specific objectives:

1) To evaluate the awareness of the different risks and risk management among the managers of Awash Bank S.C.;
2) To evaluate the level of risk management practice in Awash Bank S.C.;
3) To examine challenge, the bank is Facing with regard to the risk management practice in Awash Bank S.C.

1.5. Significance of the Study

The findings and recommendations of the current study could serve as an ingredient and be informative to the banks under examination as well as to the regulatory body in the country. It was also giving a general insight to the academic & professional society regarding risk management aspect. So, this study provides valuable information for the regulatory body on the status of the bank's risk management and findings could be used in policy formulation and used by other banks in evaluating their operations in identifying and taking corrective actions about possible risk exposures. In addition to this it will serve as a reference material for anyone who will undertake a further study on the same or related topic.

1.6. Scope of the Study

The study geographically delimited to Addis Ababa Ethiopia in four districts of Awash Bank S.C. head office. Because it is an important to see main branch in the context of branch size and the risk that bank taking in priority.

This study assesses only risk management practice in the banking sector awash bank in particular on the following major independent variable risk understanding, risk identification, risk monitoring and controlling, managing credit risk liquidity risk and managing operational risk.

The purpose of this thesis is to study the risk management practices of banks Awash Bank SC. In doing so, an in-depth understanding of the risk management practices is important to examine the relationship between the risk management and performance of banks (Ariffin and Kassim, 2011).

This approach supports this study in order to draw a chain of causality between risk management policies in practice of banks and different types of risk in Commercial bank in Ethiopian. Besides it, the adoption of this novel approach can be useful for academia as well as stakeholders of Commercial bank in Ethiopian in gaining improved understanding and holistic view of the risk management systems of local banks.

1.7. Organization of the Study

The study proposals are organized in five sections: Chapter one has background of the study, statement of the problems, the research questions intended to be addressed by the study, objectives, significance, scope, and limitations of the study, and contextual definition of key terms used in the study are presented. Chapter two deals with the review of the related literature and the following chapter three are explained research methodology which how done. Fourth chapter cover the presentation and analysis of data. The last chapter comprises a summary of the findings; conclusion and recommend.

CHAPTER TWO

LITERATURE REVIEW

2.1. Theoretical Concept of Risk in Banking Industries

The term Risk in banking Industries has extensively been probed by different investigators (Fayyaz, 2006; Ghosh, 2012; Rahman, Abdullah and Ahmad, 2012) in recent years and does not have a universal definition. Different authors apply diverse approaches to describe the scope of this term. Risk in banking refers to an exposure to unpredictability of the outcome that contains a probability of variation in the desired or expected returns (Rahman, Abdullah and Ahmad, 2012).

According to Ghosh (2012) defines risk in banks as a potential loss that may occur due to some antagonistic events such as economic downturns, adverse changes in fiscal and trade policy, unfavorable movements in interest rates or foreign exchange rates, or declining equity prices.

Furthermore, Bessis (2002) and Schroeck (2002) interpret risk in banking as undesirable impacts on returns due to various distinct sources of uncertainties. Moreover, both have incorporated the limitation that the banking risks depend on the real-world situations, also mainly comprising of amalgamation of situations in the external environment.

Similar, NBE (2012) describes the risk in banking institutions as: The possibility that the outcome of an action or event could bring up adverse impacts. Such outcomes could either result in a direct loss of earnings / capital or may result in imposition of constraints on bank's ability to meet its business objectives.

According to the NBE, adverse impacts are classified into two groups such as expected losses and unexpected losses. All those losses which can be anticipated by the banks with reasonable certainty of occurrence are treated as expected losses; for instance, loan losses. On the other hand, all losses which arise from unforeseen events are considered unexpected losses; for example, losses faced by banks due to an unexpected down turn in the economy or losses experienced because of decline in interest rates or foreign exchange rates. Statistically, the term risk is described as the probability of an adverse outcome, Standard Deviation (SD) or Variance

around the predicted return, or as an imperfection probability; whereby a higher risk value is reported in terms of greater deviation and higher disparity in the probability of occurrence (Van Horne, 2002).

Finally, the term *risk in banking* can be summarized by keeping in view all the above definitions as a probability of any event or threat which has the potential to disturb the core earnings capacity of a bank, or to increase the volatility of earnings and cash flows caused by external or internal exposures. The next section describes various types of banking risks.

2.2. Type of risks

A brief explanation of some important types of banking risks is provided as under: The SBP describes credit risk, market risk, liquidity risk, (Crouhy, Galai and Mark, 2006); operational risk, reputation risk (Rahman, Abdullah and Ahmad, 2012), and regulatory risk and legal risk as the important types of risk in national banks of Ethiopia (NBE, 2012).

2.2.1. Credit Risk

This risk is one of the most premier and the most important types of banking risk (Colquitt, 2007). Credit risk refers to the likelihood in which a contractual counterparty does not meet its obligations due to decline in repay ability or unwillingness to comply with the contract (Ammann, 2001; Bessis, 2002; Schroeck, 2002; Colquitt, 2007). Therefore, credit risk emerges when a bank is failed to recover the lending money from a borrower, counterparty, or an obligatory. According to Hempel and Simonson (1999), credit risk is a threat that the bank may not be able to collect the principal or interest on loans and securities as promised.

Generally, loans and advances are the biggest and the most obvious cause of credit risk in the majority of banks (Dhakan, 2006). Banks eliminate the credit risk through effective risk management that contains a comprehensive credit risk analysis based on scanning and monitoring of the most trustworthy loan applications, the degree of collateral, diversification of the loan portfolio, accurate loan pricing depending upon the borrowers repay ability and intentions.

2.2.2. Operational Risk

According to NBE (2003), operational risk involves the direct or indirect losses suffered by a banking institution due to deficient or abortive internal processes, systems and people or from external environmental factors. This description is in line with several other opinions that the operational risk is related to the likelihood of inverse effects on the financial performance as well as the capital of bank that is the outcome of staff members' negligence, inadequate internal processes and inapt management information systems or unpredictable and undesirable external events (Saunders and Cornett, 2008; Kanchu and Kumar, 2013).

The operational risk mostly emerges from the inside activities of bank unlike some other forms of risks like market and credit risk. However, a number of sources of operational risk come from the external environment such as competitive actions, natural disasters (such as floods, earthquakes) and terrorist attacks which are largely unpredictable and uncontrollable by banks (Fayyaz, 2006). Banks take efforts in order to control and reduce operational risk by: initiating training and development program for employees (staff capacity building); making investment in advanced technology (system's capacity building); and developing backup systems and contingency plans (Saunders and Cornett, 2008).

2.2.3. Legal and Regulatory Risk

This risk comes from the non-fulfillment of regulatory requirements by banks. Bessis (2002) takes it as the risk of disputes emerging from the different laws at play in banking transitions. This risk arises from violations or negligence of, or non-fulfillment of legal requirements, regulations, procedure and ethical standards (Schroeck 2002; Fayyaz, 2006; Tahir, 2006).

For instance, Sokolov (2007) explains that banks involved in e-banking can experience legal and regulatory risk with regard to customers' disclosures and their privacy protection issues. In case of failure to provide adequate privacy protection as per rules, banks may face financial losses in the form of fines, payments of damages, civil money penalties, and the rescinding of contracts. Furthermore, this risk has also the potential to create an adverse impact on the reputation which may lead to lower the business opportunities or reduce banks' growth and may generate liquidity issues within banks (Crouhy, Galai and Mark, 2006).

2.2.4. Liquidity Risk

Saunders and Cornett (2008) define liquidity risk as the unexpected raise in withdrawals by depositors that may pursue banks to liquidate their assets in the shortest time period. According to NBE (2012), this risk is the potential loss caused by a bank's inability to meet its obligations. The liquidity risk arises due to several reasons including a rapid increase in the 24 sudden demand of the bank's depositors and an inadequate market depth or market disruption (Tahir, 2006; Saunders and Cornett, 2008).

According to Crouhy, Galai and Mark (2006) argue that the insufficient liquidity can provoke a bank towards unexpected cash deficiencies which are needed to be covered at exorbitant costs and decrease profitability. They further highlight that the inadequate liquidity can induce a bank towards liquidity insolvency devoid of being capital insolvent. Hence, banks face liquidity risk when they are not able to meet their expected and contingent cash needs and borrow more funds when required (Fayyaz, 2006).

On the other hand, the liquidity risk also incites several financial risks such as market risk, interest rate risk, credit risk, strategic risk (Bessis, 2002&Tahir, 2006). For instance, liquidity risk provokes interest rate risk due to unknown rates of future funding and investment (Tahir, 2006).

2.2.5. Market Risk

This risk is linked to the change in assets value due to systematic factors. The market risk in banks emerges from different sources including securities portfolios, instruments and equities or in shape of interest rate or foreign exchange risk (Schroeck, 2002&Ishfaq, 2006). For instance, this risk is associated with the unfavorable change in the market value of the trading portfolio, caused by market movements, over the transaction's liquidation period (Bessis, 2002; Saunders and Cornett, 2008).

2.2.6. Foreign Exchange Risk

This risk arises due to an erratic transition in the foreign exchange rate resulted into a negative impact on the obligations of banks (Tahir, 2006). Several factors such as political stability,

inflation, public debt, current-account deficits and market speculation may serve to drive the currency down (Ishfaq, 2006). All the foreign exchange transactions with counter-parties located outside the home country contain this risk.

Saunders and Cornett (2008) describe foreign exchange risk as the threat that variation in foreign exchange rate could affect inversely on the value of assets or liabilities reported in foreign currencies. Similarly, Bessis (2002) defines foreign exchange risk as bearing losses due to unfavorable changes in the foreign exchange rates. These losses may arise because Off-balance Sheet Risk.

2.2.7. Off-balance Sheet Risk

This risk is related to the financial transactions of banks. According to Saunders and Cornett (2008), off-balance sheet risk is the possibility of losses faced by banks owing to have the contingent assets and liabilities within the banking transactions. For instance, a standby letter of credit guaranteed issued by a bank is a contingent liability and is interconnected with off-balance sheet risk.

2.2.8. Solvency Risk

The solvency of a bank is a joint product of its available capital and all risks. Bessis (2002) explains solvency risk as, "the risk of being unable to absorb losses, generated by all types of risks, with the available capital" (Bessis, 2002, p.20). Cornett and Saunders (2008) characterize it as the threat that a bank may not have adequate capital to compensate an abrupt decline in its assets value.

From the foregoing, it is obvious that banking institutions face a variety of risks that may influence their survival and success. Therefore, it is necessary for banks to comprehend with the concept of risk management in order to deal with different potential risks (Stan-Maduka, 2010).

The next section describes the concept of risk management in banks of an imbalance between the market value of specific assets or liabilities in the local and foreign currency. Crouhy, Galai and Mark (2006) point out that the volatility in foreign exchange may disrupt the return of pricey on the overseas investments, and simultaneously involve a bank in a competitive disadvantage to its

foreign competitors. They further explain that the adverse foreign exchange volatility may also generate immense operating losses and lead to inhibit investment.

2.2.9. Interest Rate Risk

This risk rises with the decline in the market value of banks assets, loans or securities because of increase in the interest rates. Bessis (2002) describes interest rate risk as the risk of deterioration in the earnings of a bank due to the change in the interest rates. Some authors believe that interest rate risk occurs due to mismatch between assets and liabilities of banks (Crouhy, Galai and Mark, 2006; Saunders and Cornett, 2008).

Saunders and Cornett (2008) highlight that this risk is strongly connected to market risk and an increase in the rate of interest causes to fall in market values of assets and liabilities. As a result, banks use different derivative techniques including options, swaps, futures and forward contracts to control the interest rate risk (Bessis, 2002&Tahir; 2006).

2.2.10. Counterparty Risk

This risk arises when the counterparty of a trade transaction potentially fails to meet its obligations (Fayyaz, 2006). It considers counterparty risk as the non-performance risk of a trading party. The counterparty risk is more transient banking risk than typical default risk of creditors and is usually linked to credit derivatives in which each member of counterparty is sensitive to symmetrical two-way risk exposures (Besis, 2002; Crouhy, Galai and Mark, 2006).

2.2.11. Country (Political) Risk

This risk is related to cross border transactions. Crouhy, Galai and Mark (2006) describe country risk as the risk that an obligor may not be able to fulfill its obligations owing to cross-border constraints on the availability or convertibility of an agreed currency. Country risk also refers to the risk of a crisis in a country due to political instability, an economic downturn or a fall in the value of the home foreign currency in terms of the bank's base currency (Bessis, 2002).

2.2.12. Equity or Commodity Price Risk

This risk arises due to negative change in the market value of equities or commodities kept by banks (Bessis, 2002). NBE (2012) characterizes equity or commodity price risk as the loss to capital or earnings that occurs due to an adverse movement in the market value of equity related portfolios. This risk is either systematic or unsystematic in banking operations. The earlier is associated with the price volatility of portfolio's values due to change in the overall equity prices and the later refers to the sensitivity of portfolio's value based upon the bank specific characteristics.

2.2.13. Reputation Risk

This risk is associated with the trusts and beliefs of customers and other stakeholders of the banking institutions (Green, 1992; Arby, 2006). According to Basel Committee (2009), reputation risk is the possibility of losses emerging from a negative perception on the side of customers, depositors, counter-parties, market analysts, investors, shareholders, regulators and other concerned parties. This risk can have an unfavorable impact on banks' ability to sustain existing or to develop new business affairs in order to maintain a continuous source of obtain funding (Ishfaq, 2006).

2.2.14. Strategic Risk

This risk is one of the most important types of risks in banking activities and related to the strategic decisions having implications for all other types of risks (Bessis, 2002). Crouhy, Galai and Mark (2006) define strategic risk as, "the risk of significant investments for which there is a high uncertainty about success and profitability" (Galai and Mark, 2006, p.33). For instance, increased competition may lead a bank to offer loans to new subprime customers having poor credit history or a sudden increase in the interest rate generates a quick fall in the mortgage volumes of banks.

2.2.15. Technology Risk

Bessis (2002) describes the technology risk in banks as the imperfections of information systems and systems failures caused by virus attack, network failure, hacking, poor system integration

and lack of skills. Crouhy, Galai and Mark (2006) point out that principally technology risk falls into the operational risk category.

2.3. Risk Management

Risk describes the incident of an uncertainty about future, the negative expectations and the probability of occurrence of something negative during these uncertainties and the possibility of deviation from an expected or estimated result. In terms of banking, it is a possibility of incurring loss for the bank. In banking sector, risk should be considered and managed together with return. The preparation of detailed scenarios on what could go wrong in terms of expectations and the calculation of loss probabilities for every case, and the determination of the possible negative impacts on the bank's own funds (capital) will ensure being ready at all conditions and therefore controlling risk (Crouhy, Galai and Mark, 2006).

Hence risk management enters into the agenda of the banking sector at this stage. Risk management deals with what will be encountered in the future as a result of the transactions undertaken in the past and what kind of problems, challenges and losses will occur due to these risks rather than dealing with what happened in the past or what's happening recently (Crouhy, Galai and Mark, 2006). It considers the possible future risks and focuses on how to ensure an adequate capital (own funds) against these possible risks and how to create a sustainable capital structure. Basically, banks encounter two kinds of risks: transaction risk that is integrated with transactions and control risk. The basic difference between risk management and internal audit is at this point. Internal audit detects the errors resulted from past transactions(Besis, 2002).

On the other hand, risk management takes the necessary measures to avoid the possible negativities in the future. Risk management, at the same time, has to be under the supervision of internal audit. In this respect, the support and supervision towards the risk management processes by the internal audit and compliance activities is necessary to ensure integrity, accuracy and consistency (Crouhy, Galai and Mark, 2006). Therefore, the appropriateness and validity of the system and procedures used for an effective risk management should constantly be kept under the supervision and control of internal audit.

2.4. The Process of Risk Management

Risk management process involves the stages such as the identification of possible risks that may be encountered by the banks, the digitizing, analyses, supervision and reporting of the determined risks by using appropriate risk measuring methods, setting up of risk policies and determining the risk management decisions that will be applied against the risks and assessing the results of the risk management policy (Yüzbaşıoğlu, 2003 cited in Melkamu, 2012).

In the risk identification stage, the properties and causes of the risk exposures are recorded and the sharing of this information with all departments is ensured. Effective institutional communication channels have major importance in this process. Regulatory/supervisory authorities consider the board of the directors and senior management of the banks as the responsible bodies for the development of strategies for risk management, the implementation of the developed strategies and the creation and implementation of policies. Risk policies of the banks and the implementation procedures related with these policies, are formed by the board of directors by taking into consideration the opinions of the risk management unit (Yüzbaşıoğlu, 2003).

These are defined as the written standards and established and put into force by the written approval of the board of directors to be implemented by the senior management (Notification of the Central Bank of TRNC). It is very important that the risk policies set out the specific criteria for all units in a bank, and are in a comprehensible, meaningful and practical structure. Risk management policies and the content of the related implementation methods should at least cover the headings below (Yüzbaşıoğlu, 2003 p.8).

- The organization and the scope of the risk management,
- Methods of risk measurement,
- The scope of the role and responsibilities of the risk management group,
- The structures and meeting frequency of the different level risk committees,
- The methods determining the risk limits and the procedures to be followed in case of infringements,
- Notification and warning procedures to be established and their implementation,
- Compulsory approvals and confirmations to be given in a variety of situations.

Risk management policies should define the appropriate reporting and approval processes. For example, the case where the approval of the general manager for the hedge transactions exceeding the set monetary limits is necessary or the double signature requirement for some transactions. Therefore, there is a need for an internal audit system functioning in a healthy manner. In case of improper functioning of this stage risk management can become a chaos (Million, Mohammed and Alemayehu, 2019).

A result of risk management, we need a structure to measure the existing risks with different statistical methods, to assess these risks together and to assess the risks that cannot be measured with the risk management models by using stress tests and scenario analysis. It is necessary to calculate the risk taken and the return obtained and to allocate capital on a sector-by-sector basis in order to ensure the effective use of an integrated risk management system and capital. Diversification of the credits given by the bank on the basis of sectors and products, the prevention of intensity by increasing the number of customers and setting upper limits for the credits can be given as examples for the policies related with asset side risk management (Kaval 2000, p.33, Cited by, Varlık 2010, p.90).

As for market risk, diversifying risk by investing in a variety of risk and return group's within the portfolio of the securities owned by the bank, daily monitoring of the price changes in the market and changing the market value of the portfolio according to the daily and seasonal changes by reflecting the changes on the assets constituting the portfolio (marking to market), also determining the limits for positions as well as limits in relation to the long positions that employees in charge of these processes within the bank's trading unit are allowed to take, applying stop loss orders as a priority in order to stop the positions creating losses by applying the pre-defined loss limits (stop loss), investing in new market assets and determining limits for the trading of these can be listed as examples for asset management policy (Kaval 2000, p.49. Cited by; Varlık 2010, p.90)

The selection and management of loans together with balance sheet management is of paramount importance in the successful implementation of the policies related to financial risk. Liability side policies are policies implemented under the assumption that; the risks cannot be completely

overcome and that adequate risk is undertaken for profitability. They are the policies for establishing the potential to cover the risks (Kaval 2000, p.33 Cited by; Varlık, 2010, p.90).

2.5. Risk Management and Capital Adequacy

One of the most complex problems in the banking sector is determining the optimal level of capital. Although a bank operating with excessive capital does not pose a problem for the supervision authority it poses a serious problem for the investors. Keeping a portion of bank's capital as idle capital and not undertaking adequate risks in proportion with the capital, results in reduced profitability and return on equity of the bank (Altıntaş, 2006, p.58).

There are two ways to increase the return on equity: to increase profitability by undertaking risks and to decrease capital/own funds. Citibank could not bring its return on equity to a satisfactory level and repurchased 3 billion shares in 1995 and public banks in 2004 returned their equity capital back to the Treasury in order to reduce the capital adequacy ratio down to a reasonable level. These cases of Citibank and public banks in Turkey can considered within this context (Million, Mohammed and Alemayehu,2019).

The level of economic capital of a bank should meet the number of unexpected losses (Matten 2001, p. 20-21 Cited by; Altıntaş, 2006, p.36). At this point, it is important to measure the unexpected losses and distinguish them from expected losses. The capital that will cover the unexpected losses arising from the risks undertaken is called economic capital or venture capital. The credit rating of a bank is considered to be high as long as its probability of bankruptcy is low. This is closely related to the economic capital.

In banking, as in any business, capital fulfills the following important functions; -Representing the ownership of the business, -Ensure funding for the activities of the business (Altıntaş, 2006, p.58)

Funding of the activities in banking cannot be solely based on capital. Borrowing debt is a banking activity. Therefore, borrowing is unavoidable. However, a well-capitalized banking sector enables the access to credits and even cheaper credits. The most important factor reducing the systemic risk is a strong capital structure. Capital and liquidity problem only in a single bank can be enough to trigger systemic risks.

Risk-based capital adequacy ratio (Basel I) has not only been accepted in our country, it has been generally accepted in all countries of the world and has become an international standard. By gradually increasing the risk sensitivity of the regulation and introducing Basel II, capital adequacy regulation has gone beyond being just a tool to measure capital adequacy but become the center of risk management (IMF, 2012). Basel II, in risk measurement, is more a dynamic structure with a room for improvement. It is not static as Basel-1. Basel II Accord, which was published in 2004, has been transposed into an EU Directive in 2006 and road maps were developed for the implementation. Particularly in credit risk, Basel-II is an approach which requires substantial amount of resources and effort as well as an important preparatory process.

2.6. The Development of Risk Management in Banking

Similar to other countries, the banks in Ethiopia also face a very dynamic and compact environment (Birtu megazen, 2010). The NBE has also acknowledged the fact that the local banks in Ethiopia are exposed to different kinds of risks in order to achieve their business objectives and an inadequate risk management may cause a negative impact on the continuity and survival of these banking institutions (Million, Mohammed and Alemayehu,2019). Consequently, the NBE has imposed risk management guidelines on the banking sector in 2012.

These risk management guidelines are arranged by the risk category and designed to give a brief overview of all the important actions which might be required from the banking institutions. The principles incorporated in this set of guidelines are intended to integrate the existing risk management standards released by the Basel Committee (IMF,2012).

However, these guidelines are not designed to provide a detailed plan of actions for every control procedure that might be put in place by these institutions and offer only a broad outline of all the important actions. A brief description of these guiding principles (based on the risk management guidelines issued by the NBE in (2003;2012) is presented in the subsequent sections.

2.6.1. General Requirements

The risk management guidelines encompass a brief interpretation of the risk management and an extensive explanation of main risks that might have in different Ethiopia banking institutions

(NBE, 2003; 2012). According to these guidelines, the risk management in banks comprises of risk identification, assessment, measurement, monitoring and controlling or mitigating all risks innate in the banking business. Every banking institution has been directed to apply the basic principles pertaining to risk management without considering its size and complexity. The themes of these fundamental guiding principles include:

The overall obligation of risk management rests with the board of directors of banks and they are directed to formulate policies according to different areas of operations of their banks. The top management of bank is responsible for designing risk management strategies, explicit plans and procedures for controlling or mitigating risks and all these plans and actions should be duly approved by the board of directors. The assessment of risk is needed to make on the basis of portfolios or business lines at the operational level and the senior management are required to adopt a holistic approach in measuring and managing the risk profiles of banks (Negart Gazeta,2012).

- All the individuals heading different portfolios or the business lines in banks are also liable for the risk they take regardless to a separate management function or a risk review.
- All the potential risks are required to measure quantitatively, to report and to mitigate.
- An independent function is needed for the risk review irrespective of those who accept and endure risk. The review function involves stress tests revealing the portfolios to unexpected changes in the important variables or the key systemic shocks.
- Banks are directed to maintain contingency plans in order to deal with any unanticipated or catastrophe case scenarios.

Besides above, all the banking institutions are instructed to develop an effective risk management system to deal with the major risks such as credit, market, liquidity, and operational risk based on the principles explained in the guidelines (IMF, 2017). A brief explanation of the same has been presented below:

2.6.2. Guidelines on Credit Risk

According to the credit risk guidelines, the boards of directors are declared responsible for developing an explicit credit policy. The boards are directed to accept the credit risk strategy of

their banks and important policies regarding to credit risk management which are depended on the overall business strategy of their banking institutions (Million, Mohammed and Alemayehu,2019). The top management of banks are not only instructed to establish policies, procedures and systems but also set up an approved organizational structure to evaluate, monitor and control the credit risk.

The banks in Ethiopia are also required to develop an ingenious credit risk management unit consistent with the complexity and size of the bank's credit portfolio. The function of loan origination is considered to be the most important task in credit risk management and emphasizes are put on the appropriate analysis of lender's creditworthiness, ability, intention and financial health of the borrower(lelise,2014).

This aspect is further strengthened by applying credit administration function. According to this function, the banks in Ethiopia are required to: ensure the activities harmonize with their policies and procedures; maintain the loan documents, credit files; and observe the loan covenants compliance. Banks are also encouraged to develop internal credit ratings and to allocate them according to the credit exposures of each individual. A regular monitoring and preparation of individual, aggregate and sector wise periodic reports of the loan portfolio are required from the banks operating in Ethiopia. Finally, banks are advised to establish strategies or plans of action to cope with the problem loans.

2.6.3. Guidelines on Market Risk

The guidelines on market risk direct the board of directors and the top management of banks to establish an adequate framework for the market risk management in order to deal with the potential losses due to undesirable change in the foreign exchange rates, interest rates, and equity or commodity prices. This framework encompasses an organizational setup which is necessarily not only consistent with the size, scope and complexity of business, but also aligns with the strategies, systems and procedures to measure, monitor and control or mitigate market risk (Yüzbaşıoğlu, 2003; NBE, 2012)

It is also recommended that banks in Ethiopia develop a middle office between the back and front office functions to accomplish an independent market risk management unit. According to

the guidelines on market risk, the independent function needs to identify, measure and analyses market risks inherent in treasury operations of banks and requires reporting these risk exposures directly to the top management (Negarit gazeta, 2008).

It is also suggested that the banks in Ethiopia can adopt different techniques ranging from the static gap analysis to the sophisticated risk models to estimate market risk according to their own requirements. Finally, the local banks are required to make sure that they have sufficient control mechanisms as well as pertinent setups such as periodic reviews or audits for the market risk to monitor it (Million, Mohammed and Alemayehu, 2019).

2.6.4. Guidelines on Liquidity Risk

The guidelines on liquidity risk emphasize that the top management of banks are required to develop a comprehensive mechanism to identify, evaluate and control liquidity risk. These guidelines suggest the key prerequisites of a competent liquidity risk management contain a well-informed board, qualified management and staff having the appropriate knowledge, and active systems and procedures. It is further directed that the top management are needed to set up an efficient organizational structure to regularly monitor the liquidity positions of banks.

All banking institutions are required to build a resourceful liquidity management framework considering their overall as well as separate liquidity exposures on the basis of different types of their account holders or deposits. For this purpose, banks are directed to identify their future liquidity shortfalls and assume periodical cash flow analysis under different market conditions and scenarios. These guidelines propose effective management information systems, contingency funding plan and risk limits as the important components of the strong liquidity management process.

2.6.5. Guidelines on Operational Risk

The guidelines on operational risk direct the banking institutions that they are needed to contemplate the broad line of material operational risks influencing the banking operations, containing the risk of loss caused by incompetent or poor internal processes, procedures, people, controls, and systems or from external events. The board of directors are required to make sure that the top management of their banks have established adequate process, procedures, controls

and systems for all the major areas of operations in addition to setting up a tolerance level for the operational risk (Negrati gazeta,2012).

For this purpose, every banking institution is directed to apply six basic principles pertaining to the operational risk management regardless of its size and complexity. Furthermore, it is also required that the senior management of banking institutions forcefully communicate all the laid down procedures and guidelines down the line and make necessary arrangements to provide the essential training to their concerned staff. Finally, all the banking institutions are needed to disclose information on timely basis in order to provide a reliable structure for assessing their operational risk monitoring.

The risk management guidelines issued by the NBE have supported banking institutions to develop an adequate risk management system. The banks have been encouraged to take necessary actions for the implementation of risk management guidelines (Negera, 2012) besides the issuance of these guidelines; the NBE has also established a road map for the implementation of Basel.

The above description of risk management guidelines indicates that it is necessary for the banks to understand their risks exposures and to adopt a wide range of risk management practices for their survival and success. For this purpose, a number of studies have been conducted in the area of risk management practices and the next section provides a brief review of some relevant studies.

2.7. Empirical literature

Various empirical studies have been conducted in different countries from different perspectives regarding determinants of asset quality;

A study of Ali & Daly (2010) also strived to answer the question of which macro-economic factors can mostly affect the credit risk of commercial banks in Australia and USA. Using the logit regression model, they identified that both countries, Australia and USA, are affected by the same set of macroeconomic variables; GDP and short-term interest rate. The study also confirmed that the US economy is more susceptible for macroeconomic variables shake than that of the Australian.

In the case of Africa, there are evidences which show different macro and micro economic factors that influence credit risk level of commercial banks. For example, by using both pooled (unbalanced) and fixed effect panel models Warue (2013), found per capita income and profitability (ROA) are the major determinants (with a varying level significance for small, medium, large, local and foreign) of Kenyan commercial banks' bad loan practices.

In contrast to the above result, Fofack (2005) argues that more attention should be given to macro-economic factors. This study was performed by using pseudo-panel econometric models for a classified sub panel of CAF and NON-CAF sub-Saharan countries. The finding of Fofack's study indicates the leading causes of credit risk in most sub-Saharan countries are economic growth, real exchange rate appreciation, real interest rate, net interest margins and interbank loans.

Few studies were also conducted from the Ethiopian commercial banks point of view. Among others, Negera (2012) studied the determinant of nonperforming loan in Ethiopian commercial banks. The study used both primary and secondary data source which are obtained from private and public owned Ethiopian commercial banks.

In this case, the study found that, poor credit assessment, failed loan monitoring, underdeveloped credit culture, lenient credit terms and conditions, aggressive lending, compromised integrity, weak institutional capacity, unfair competition among banks, willful default by borrowers and their knowledge limitation, fund diversion for unintended purpose, over/under financing by banks ascribe to the causes of loan default in Ethiopia.

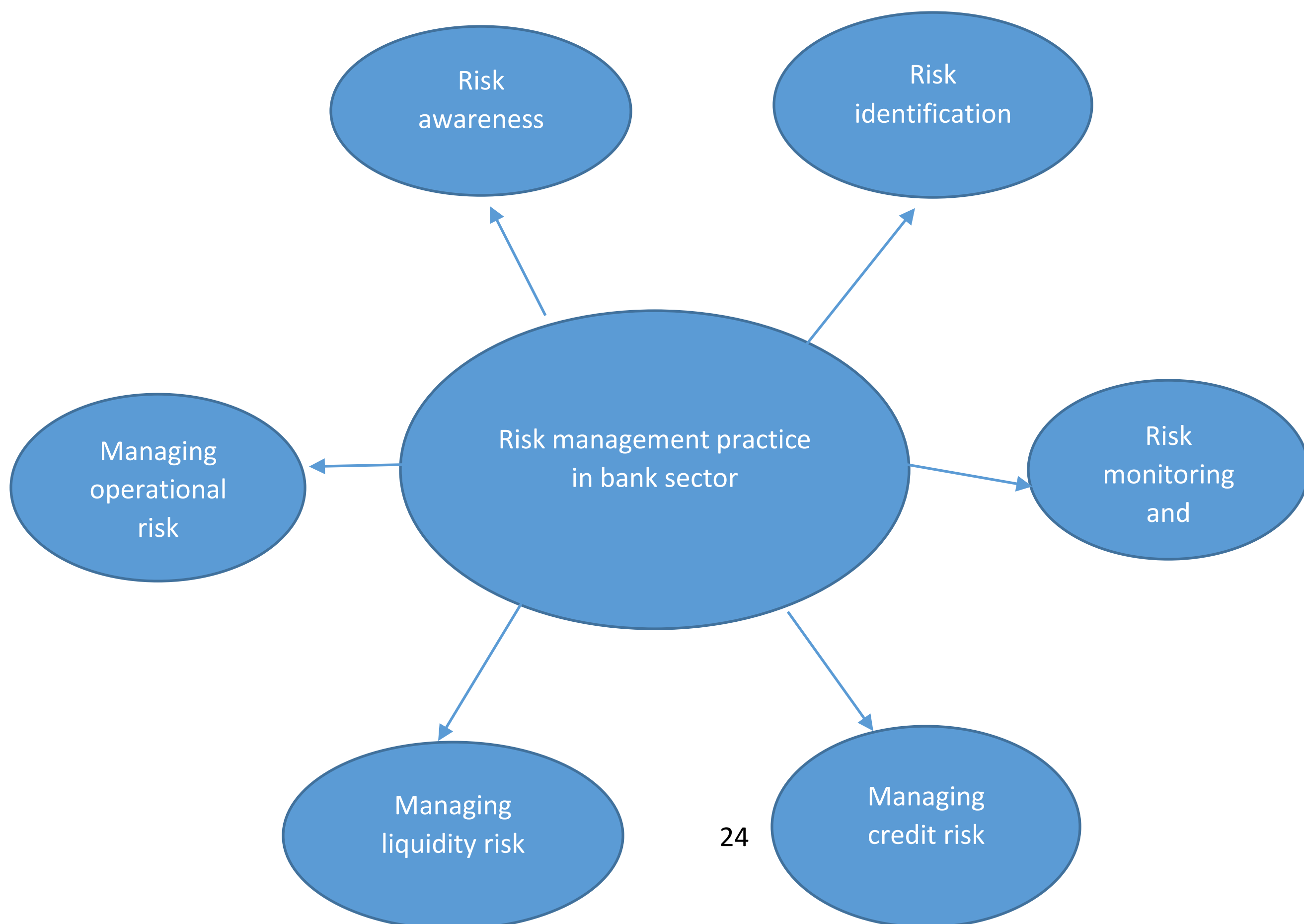
On the other hand, Tehulu & Olana (2014), examined the bank specific determinants of credit risk in Ethiopian commercial banks. Their research, then, showed that credit growth, bank size, operating inefficiency and ownership have statically significant influence on credit risk.

In other hand, Lelissa (2014) also identified that level of Ethiopian commercial banks' bad loan is well explained by quantity of risk and quality of risk management related (bank specific) variables. This study classified credit risk determinant variables in to two different categories which are quantity risk and quality risk variables. Out of quantity risk variables, loans to total asset and credit concentration have a significant relationship with credit risk and among quality

risk variables categories; bank size has a significant influence on Ethiopian commercial banks credit risk.

Moreover, Million, Mohammed and Alemayehu (2019) were conducted to identify the determinants factor on the level of credit risk of commercial banks of Ethiopia. It was found that LDR and BAS have positive impact. The result of the study further indicated that a negative and significance effect GDPR and LGR on the level of assets quality in Ethiopian baking industry.

2.7.1 Conceptual framework



CHAPTER THREE

RESEARCH METHOD

3.1. The Research Design

The study was used descriptive research design with self-administered questionnaire as primary data collection techniques using both qualitative and quantitative data type. Therefore, descriptive survey method is believed to be appropriate for this study as it consists of mainly how and why questions of the study, behavioral real events which are not possible to control and contemporary and complex social phenomenon whose boundary is not clear (Babbie, 2010).

For undertaking this research, according to Bryman (2008), it stated that on descriptive survey method as an overall approach for its ability to incorporate different methods and techniques in the collection and analysis of data that focuses on the various issues of the study for explanation in a scientific way and phenomena. Moreover, discovering regularities in descriptive events is a prerequisite to examine the risk management policies in practice of in Awash Bank S.C.

3.2. Research Approach

This research Approach was organized using both quantitative and qualitative methods, which was in triangulation research method which helps to clarify concepts, characteristics, descriptions, counts and measures to demonstrate implications of the issue under objectives. The quantitative method involves the use of structured and semi-structured questionnaire while qualitative would include the use of personal interviews with the sampled subjects will be selected for this research. According to Mouton & Marais (2001), identified about Quantitative methods are most often used when the motives for research are evaluated The quantitative method refers to the collection of data using numbers, counts and measures of things and qualitative research basically involves the use of words, picture description and narratives.

In other hand, Kothari (2004) was asserted that in qualitative research, it aimed to understand how people live, how they talk, how they behave and what captivates or distress them. The most effective evaluation research is one that combines qualitative and quantitative components,

making statistical comparisons is useful and so is gaining an in depth understanding of the processes producing the observed results or preventing the expected results from appearing. It was for this sake that; this research design was chosen in order to examine the risk management policies in practice of in Awash Bank S.C.

3.3. Study Population, Sample Design and Sample Procedure

3.3.1. Target Population

Population can be defined as the study of objects, which may be individuals, groups, organizations, human products and events or the conditions to which they are exposed (Bryman and Bell, 2011, p: 46). According to according to annual statics 2020 reported by Awash Bank SC, 2020, there were an estimated 3578 total permanent employees. Targeted populations was selected only four district of Awash Bank SC the different level of position employees awash bank for the purpose of study using purposive sampling due to homogeneity of project target members.

From identified statics out of the total populations 630 were district and regional directors, 853 were branch managers. customer service officer, business development manager and the rest of crew members were customer officers i.e. 2095. From total target populations employees were taken by using Stratified random sampling method. (See 3.4.2).

3.3.2. Sample size Determinations

As Mike Slovin (2007), developed a means of determining sample size from large population and becomes representative possible sample size. By using the Mike Slovin formula with confidence level: 95%, degree of variability: 50% (Maximum Variability), sample error: ± 7% and makes easy to determine middle representative sample size from large population.

The total selected Awash bank employees were in each sub city project site will be obtained 3,578. To determine the appropriate sample size for the study; the researcher deals with three possible options which can provide different sample sizes. The basis for determining the sample size in each option is the level of precision or sampling error, the confidence level and the degree of variability in the attributes being measured. In this regard, the researcher used option (2) i.e.

(0.07) of Slovene formula by 7% to determine sample size. Since the population is large the following simplified formula was applied:

$$n = N/ (1+N I^2$$

Where: N = Population Size n = Sample

Size e = Precision (Sampling Error): 7%

In this option the sampling error was decreased from ± 10%, ± **7%** to ± 5% so as to get the middle sample size options 2 is more appropriate.

Confidence Level = 95%

Degree of Variability = 50% (Maximum Variability)

Sampling Error = ± 7% Total Population =

Total Population = 3,578

The sample size is computed as follows:

$n = N/ (1+N I^2)$ $n = 3{,}578 /1+3{,}578 (0.07)^2$

n = 193.02 ≈193.

Table 3.1. Awash Bank SC from three District Sample size, 2020			
Ser. No	Departments/Sections	Population	Sample size
1	District and regional directors	630	34
2	Branch managers, customer service manager and busin development manager	853	46
3	Customer officers	2095	113
Total No. of employees		**3,578**	**193**

Source: Awash Bank SC from three District offices Report, 2021

Based on the Mike Slovin (2007) sample size determination formula total 193 Awash Bank SC employees will be taken as representative samples have been taken proportionally from each Stratified as representative sample.

3.4. Sampling technique for quantities method

Under quantities method the sample selection was guided by principles of probability Stratified Random sampling technique was employed in selecting the representative sample from different levels of Addis Ababa Awash Bank SC Sample size. As identified by De Vaus (2002., p: 132),

the aim of sampling in social research is to produce representative selections of population elements. In the course of the process of sampling the main aim is to get a sample of that which is as representative as possible of the target population. Therefore, study participants were selected proportionally from each of the three departments.

The study's validity, an unbiased sample that is representative, and the technique of criteria used in the sampling process include a clear description of the population, observing the benefits of multistage, systematic drawing of the sample, and drawing probability rather than non-probability sample.

3.5. Source and Instruments of Data Collection

The main sources of the data were from both primary and secondary. The primary sources of data were gathered through questionnaire from Awash Bank SC permanent employees. The questionnaire was adopted from different literatures and previous research papers related to the study and customized in order to suit to achieve this study. The reason for the selection of questionnaire is to procure the extensive data at reasonable cost and to cover wide geographical areas in a relatively short time. Besides, semi structured Likert scale questionnaire was designed and distributed to those sample employees who are currently working in different sections of Awash Bank SC permanent employees as Sample size and Secondary data was also used which includes risk Report,2020, published and unpublished information about the study area, books and journals from library and internet.

3.6. Validity

Validity is the credibility or believability of the research. There are theoretical concepts related to the research and the questionnaire used for this study is adopted from earlier researches. According to Ndekugri, I. (2013) validity refers to the ability of the instrument to measure what it is designed to measure. Additionally, the validity is verified by the advisor of this research who looks the appropriateness of the questions and scale of measurement. In doing so, validity of the questionnaire and interview were seriously investigated so that unnecessary errors had been removed from the questionnaire and from interview guidelines. This was done using content validity by consulting the

expertise and advisor regarding the content of the questioner either it measures the predetermined objective of the study to avoid those errors might occur in questionnaires and interviews..

3.7. Reliability

It was developed on the basis of previous studies and review of related literature. In addition, the researcher provided explanations concerning on the questions to the respondents. As per Creswell (2004) reliability refers to consistency, where internal consistency involves correlating the responses to each question in the questionnaire with those other questions in the questionnaire. The student researcher employed Cronbach's alpha to calculate the internal consistency of the instrument. Cronbach's alpha coefficients range in value was used to describe the reliability of effect extracted from dichotomous and or multi-point formatted questionnaires or scales. However, there is no lower limit to the coefficient. The closer Cronbach's coefficient alpha is to 0.65 the greater the internal consistency of the items of the scale (Davis, and Cosenza, 1993. Crotty, 2018).

Table 2: Survey Cronbach's Alpha Reliability Result of the Variables

	Reliability Statistics		
	Variable	Cronbach's Alpha	No. of Items
1.	Risk Understanding	0. 978	4
2.	Risk Identification	0.890	6
3.	Risk Monitoring and Controlling	0.973	9
4.	Managing Credit Risk	0.934	5
5.	Managing Liquidity Risk	0.847	5
6.	Managing Operational Risk	0.897	5
7.	Total ∑=α	0.912	34

Source: Own Survey, 2021

As a result, the coefficients of reliability of items measuring variables are found to be Cronbach's alpha α = 0.912. Therefore, the instrument can be accepted as reliable. So, the questionnaire was distributed after correcting the feedback given in the pilot study. Cronbach's value for all variables after data entry is 91.2% effective and then is computed as per the

category as follows. The category Cronbach's values that are less than the overall and items were greater than 0.70 which have been accepted.

3.8. Methods of Data Analysis

Following data collection, it was analyzed and provided analysis, interpretation, and presentation. Descriptive statistics are commonly used to summarize quantitative data using the Statistical Package for the Social Sciences (SPSS) version 23 software. Statistics such as mean, frequency, and standard deviation were also employed to examine the data among the various groups. The mean and standard deviation were used to summarize the data gathered, which indicated the mean difference between variables for Awash Bank SC permanent workers. And quantitative data was analyzed accordingly procedure qualitative data start during and after data collection, which helped in rearranging and analyzing these data systematically and rigorously. Data was presented in the form of statement.

3.9. Ethical Consideration

Ethical consideration in research should uphold fairness, honesty, openness, disclosure of methods and the purpose for which the research is being carried out. In this case, information gathered from Awash Bank S.C. employees in Addis Ababa respondents were kept until the reasonable period of time. Confidential files and issues regarding employees' personal data, policies and strategies of the organization and other highly classified information that need to be kept confidential are given value and kept confidential.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.INTRODUCTION

This chapter deals with the analysis and presentation of the quantitative data collected through questionnaire. The questionnaires composed of close-endedquestions, which are summarized and presented quantitatively in tables using SPSS 23 software. The researcher also used some secondary data from published and unpublished documents of the case organization.

In other hand, out of 193 questionnaires distributed, 189 were collected which makes the response rate is 97.9% of the questionnaires the returned questionnaires were usable because they were filled properly. The researcher, as much as possible, made the questionnaire easy to read and answer without difficulties.

4.1. Socio-Demographic Characteristics of Respondents

The study analysed the demographic characteristics of respondents involved in the study. In this section the respondent's profile is presented. It includes gender, age, marital status, level of educational, length of service; training received, obtains another post, and outcome to perform in the current position. Analysing these variables was meant to provide any evidence of association between these variables and the various responses.

Table 4.1: Demographic Characteristics of the Respondents

Demographic characteristics	Description	Frequency	Percentage
Sex	Male	128	67.00
	Female	61	33.00
	Total	189	100.00
Age	21- 25 years old	5	2.65
	26-30 years old	115	60.85
	31-35 years old	31	16.40
	36-40 years old	38	20.10
	Total	189	100.0
Marital Status	Single	107	56.61
	Married	38	20.11
	Divorced	44	23.28
	Total	189	100.00
Education Level	Degree	132	69.8
	Masters	57	30.2
	Total	189	100.0

Source: Own Survey, 2021

The above Table 3, regarding to respondent's gender, majority 128 of them are male while 61 of them were female. Out this we can see that 91respondents are male consisting 67.0% of the workforce while 61 respondesnts are female consisting 33.0%. From the above table it can be observed that the difference in gender composition in the sector is marginally high which the respondents rating promotes gender balance in its employment practices.

As we can see that, 79 respondents (60.85%) were within the age group of 26-30 years. 31 (20.11%) of the respondents were between the age group of 36-40 years and 25 (16.40%) of the respondents

were between the age group of 31-35 years. The rest 4 (2.6%) and 13 (2.65%) were between the age of 21-25 years and more than the age of 40 years respectively. Therefore, this implies that more than half of the respondents of Awash bank workers are between the age group of 26-40 years.

From above table result regarding to respondent's marital status indicates that, out of the 189 respondents captured in the research work, 107 respondents representing 56.6% of the total population were not married in other words they were single, (38) respondents representing 20.11 % were married, on the other hand indicated they were married whilst the remaining (44) respondents representing only 23.8% of the total population were divorced. Therefore, be deduced from the statistics in table above that most of the staff at the various sections of the Awash bank S.C., employees were not married.

With regard to the level of education, 132 respondents (69.8%) have Bachelor's Degree and 57 respondents (30.2%) have Master's Degree. This shows that majority of the respondents who are participated in this study found educated to a level of Bachelor's Degree or have first degree.

Level of experience	**Frequency**	**Percent**
1 – 5 years	24	12.7
6 – 10 years	62	32.8
11 – 15 years	36	19.0
11 – 15 years	28	14.8
16 – 20	30	15.9
above 20	9	4.8
Total	189	100.0

Source: Own Survey, 2021

Following above table 4, portrays that the distribution of length of service that respondents have been working in awash bank. Out of the total respondents, 62 (32.8%) are between 6-10 years, 36 (19%) are between 11-15 years, 24 (12.7%) are between 1-5 years, 30 (15.9%) are between 16-20 years and finally 9 respondents (4.8%) are above 20 years. Therefore, majority of the respondents have been working in Awash bank S.C., between six to ten years. This indicates most of the banks employee have moderate experience and can able to identify overall practice of the bank.

On the other hand, a small percent of respondents (4.8%) are above 20 years of work experiences in Awash Bank SC. While none of the respondents have more than 30 years of experience with the same organization the study shows that majority of respondents (32.8%) of the surveyed employees have more than 11-15 years' experience with the same employer.

4.2. Risk Management in Banking Sector in Awash Bank S.C.

As described in Section 4.3, this chapter has used two measures of descriptive analysis such as means and standard deviation (SD) to evaluate the current Risk Management practice in Banking Sector in Awash Bank S.C, Ethiopia. The study makes a broad argument on the basis of higher mean value and smaller value of SD.

The current study implies the different variables to investigate risk management practices in local contexts as Risk Understanding, Risk Identification, Risk Monitoring and Controlling, Managing Credit Risk, Managing Liquidity Risk and Managing Operational Risk). These analyses are aimed at answering specific research questions focusing on the evaluation of the level of risk management practice Awash Bank S.C.

4.2.1. Risk Awareness

4.2.2. Table 4.3: Risk Awareness

Items	Mean	Std. Deviation	N
There is a common awareness of risk management across the bank	4.18	.717	189
There is a proper system for awareness various risks implemented in the bank	4.08	.750	189
Responsibility for risk management is clearly set out and awareness throughout the bank	3.89	.839	189
Accountability for risk management is clearly set out and awareness throughout the bank	3.84	.916	189
Overall scale values	4.00	.611	189

Range Description- Mean Difference: by **Aiken and West (1991).**

1.00-2.50 = Low 2.51-3.50 = Medium

3.51-5.00= Higher

Source: From researcher Owen survey data, 2021.

The mean responses of all items range between 3.84 and 4.18, with an overall average of 4.00 in Table 4. Item one has the highest mean (4.18), in which the participants have been viewed to assess a common understanding of risk management across their bank. It is evident that the managerial staffs of Awash bank SC have a common understanding of risk management. It may provide an important indication regarding the ability and effectiveness of the selected bank to manage their potential risk exposures in future.

Item four has the lowest mean (3.84), in which respondents' understanding about the accountability for risk management throughout their banks has been judged. This indicates that the understanding regarding the accountability for risk management in selected banks is relatively diminishing as compared to understanding. However, the average mean score of all four items have exceeded the midpoint that is 4.00 on the five-point Likert scale and reports that the staffs of selected Awash bank S.C. have a good risk understanding in general. The minimum score in setting responsibility for risk management clearly(3.89) and clearly indicating the accountability for risk management and understanding (3.84) was rated.

Thus, the highest mean score for this measurement is having common undersatanding of risk management across the bank (4.18) that indicate the respondents understanding about riskis higher.

The results for risk understanding are qualitatively compatible to those reported in existing literature (Al-Tamimi, 2002; Al-Tamimi and Al-Mazrooei, 2007; Hassan, 2011; and Abu Hussain and Al-Ajmi, 2012). Eventually, the average response of the above four items about risk understanding has facilitated the researcher to answer the second research question investigating the level of risk understanding among the staff of selected banks in Awash bank S.C.

4.2.3. Risk Identification

Table 4.4: Risk Identification				
Items		Mean	Std. Deviation	N
1.	The bank carries out a compressive and systematic identification of its risks relating to each of its declared aims and objectives	4.17	.628	189
2.	The bank finds it difficult to prioritize its main risks	3.96	.687	189
3.	Changes in risks are recognized and identified with the bank's roles and responsibilities	4.15	.686	189
4.	The bank is aware of the strengths and weaknesses of the risk management systems of other banks	4.14	.744	189
5.	The bank has developed and applied procedures for the systematic identification of opportunities	4.05	.691	189
6.	It is crucial for bank to apply the most sophisticated techniques for risk identification	3.99	.741	189
Overall scale values		**4.07**	**.444**	**189**

Range Description- Mean Difference: by **Aiken and West (1991).**

1.00-2.50 = Low 2.51-3.50 = Medium 3.51-5.00= Higher

All the values reported in Table 5, indicate that there is a very little variance between responses given by bank managers. The overall mean of all responses is 4.07. However, the average response of each item shows different values and varies between 3.96 and 4.17. The first item of the risk identification has the highest mean (4.17), in which the participants have been asked to give their feedback if the banks have successfully identified their potential risks in response to their declared aim and objectives. The high mean reveals that the selected banks have adopted a compressive and systematic risk identification mechanism.

Conversely, the second item has the lowest mean (3.96), which indicates that the selected banks face difficulties to prioritize their key risks in Awash bank S.C.. Moreover, the average mean

score of all six items is greater than the midpoint and indicates that the staffs of selected Awash bank S.C. are good in risk identification.

When we rank these items based on their SD, the bank's compressive and systematic identification of its risks relating to each of its declared aims and objectives, identification of changes in risks and the bank's roles and responsibilities, and ability to be aware of the strengths and weaknesses of other banks' risk management systems received a higher score. However, the difficulty in prioritizing its primary hazards and employing the most complex risk assessment methodologies received a middling score. That indicates a lack of risk identification and the use of advanced risk identification methods.

Furthermore, these results for risk identification are quite similar to those reported by Al-Tamimi and Al-Mazrooei (2007), Hassan (2011), Abu Hussain and Al-Ajmi (2012), Hassan (2011) and Nazir, Daniel and Nawaz (2012). This result supports the findings of risk understanding that improves the risk identification in Awash bank S.C. and the results of risk assessments are used to design the controls to mitigate the prioritized bribery risks in bank industries.

4.2.4. Risk Monitoring and Controlling

Table 4.5: Risk Monitoring and Controlling in Awash bank S.C.

Items		Mean	Std. deviations	Items
1.	Monitoring the effectiveness of risk management is an integral part of routine management reporting	4.03	.807	189
2.	The level of control by the bank is appropriate for the risks that it faces	4.05	.718	189
3.	The bank has adopted a standard reporting system about the risk management form bottom to top management	4.16	.746	189

4.	Reporting and communication processes within the bank support the effective management of risk	4.17	.665	189
5.	The bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses	3.70	.940	189
6.	The bank's response to risk includes action plans in implementation decisions about identified risk	3.77	.906	189
7.	The bank effectively monitors the credit limit of everyone counterparty	3.94	.801	189
8.	The bank reviews the country ratings on regular basis for its international financing and investment	3.99	.796	189
9.	The borrower's business performance is regularly observed by the bank following the extension of financing	3.95	.724	189
Overall scale values		**3.97**	**.473**	**189**

Range Description- Mean Difference: by **Aiken and West (1991).**

1.00-2.50 = Low 2.51-3.50 = Medium 3.51-5.00= Higher

Source: From researcher Owen survey data, 2021 All the values reported in Table 6, indicate that the respondents have quite similar responses. The mean response of each item shows values between 3.70 and 4.17, with an overall average value 3.97 of all the five items. The fourth item of the risk monitoring and controlling has the highest mean (4.17), in which the participants have been asked to give their feedback if the effective management of risk is supported by the reporting and communication processes within their bank. The high mean reveals that the reporting and communication processes help to improve the effective risk management of selected banks.

The process of maintaining track of recognized risk, monitoring residual risks and detecting new riks, guaranteeing risk plan implementation, and assessing their efficacy in decreasing risk is known as risk monitoring control. Risk monitoring and control track risk parameters related with the implementation of contingency plans. Even though the average mean score of all nine items is 3.97, which is more than the midpoint on the five-point Likert scale and reports in Awash bank S.C. and good in risk monitoring and controlling is obtained, bank's response to risk including action plans in implementation decisions about identified risk, effective monitoring the credit limit of everyone counterparty and banks ability to reviews the country ratings on regular basis for its international financing and investment have got lower mean score than other parameters.

These results for risk monitoring and controlling are quite similar to those reported by Al-Tamimi and Al-Mazrooei (2007), Hassan (2011) and Abu Hussain and Al-Ajmi (2012). The third research question (investigating the level of risk monitoring and controlling among Awash bank S.C. has been addressed based upon the overall mean score of the nine items regarding risk monitoring and controlling. Risk management may entail selecting alternate solutions, putting in place a contingency plan, taking remedial action, or re-planning the activity. The risk response owner should report to the project manager and the risk team leader on the success of the plan, any unexpected consequences, and any mid-course corrections required to minimize the risk on a regular basis.

4.2.5. Managing Credit Risk

Table 4.6: Managing Credit Risk in Awash bank S.C.

Item	Mean	Std. deviations	N
1. The credit risk strategy set by the Board of Directors are effectively transformed and communicated within the bank in the shape of policies and procedures by the top management	4.22	.733	189

2. The bank has an effective risk management framework (infrastructure, process and policies) in place for managing credit risk	3.89	.839	189
3. The bank has a credit risk rating framework across all type of credit activities	3.84	.916	189
4. The bank monitors quality of the credit portfolio on day-to-day basis and takes remedial measures as and when any deterioration occurs	4.08	.750	189
5. The bank regularly prepares periodic report of credit risk	4.18	.717	189
Overall scale values	4.04	.560	189

Range Description- Mean Difference: Aiken and West (1991).

1.00-2.50 = Low 2.51-3.50 = Medium 3.51-5.00= Higher

Source: From researcher Owen survey data, 2021.

Table 7, shows that the overall mean of all the questions is 4.04 and the mean value of each item varies from 3.84 to 4.22in Awash bank S.C. The first item has the highest mean (4.22), which indicates that the credit risk strategy is effectively transformed and communicated in Awash bank S.C. by the top management.

On the other hand, the third item shows the lowest average score 3.84 and specifies that the in Awash bank S.C. have a credit risk rating framework across all types of credit activities. However, the average mean score (4.04) of all items is more than the midpoint and highlights in Awash bank S.C. are generally good in credit risk management. Therefore, credit risk emerges when a bank is failed to recover the lending money from a borrower, counterparty, or an obligatory. According to Hempel and Simonson (1999), credit risk is a threat that the bank may not be able to collect the principal or interest on loans and securities as promised. Generally,

loans and advances are the biggest and the most obvious cause of credit risk in the majority of banks (Dhakan, 2006).

Therefore, Awash bank S.C. found eliminate the credit risk through effective risk management that contains a comprehensive credit risk analysis based on scanning and monitoring of the most trustworthy loan applications, the degree of collateral, diversification of the loan portfolio, accurate loan pricing depending upon the borrowers repay ability and intentions. Therefore, active enjoyment and understanding risk management would minimizing losses by assessing the adequacy of a bank's capital and loan loss reserves at any one moment that has long been difficult for financial institutions to understand.

4.2.6. Managing Liquidity Risk

Table 4.7: Managing Liquidity Risk in Awash bank S.C.

Item	Mean	Std. deviations	N
1. There is a proper set of rules and guidelines, for managing liquidity risk, available in the bank	3.84	.841	189
2. The liquidity risk strategy set by the Board of Directors are effectively transformed and communicated within the bank in the shape of policies and procedures by the top management	4.00	.794	189
3. The bank has an effective risk management framework (infrastructure, process and policies) in place for managing liquidity risk	3.91	.730	189
4. The bank regularly prepares periodic report of liquidity risk	4.02	.693	189
5. Applications of liquidity risk management techniques reduce	3.83	.757	189

costs or expected losses			
Overall scale values	**3.92**	**.532**	**189**

Range Description- Mean Difference: by **Aiken and West (1991).**

1.00-2.50 = Low 2.51-3.50 = Medium 3.51-5.00= Higher

Source: From researcher Owen survey data, 2021.

According to Table 8, the overall mean of all responses is 3.92in Awash bank S.C. However, the average response of each item shows different values and varies between 3.83 and 4.02. The fourth item indicates the highest mean score (4.02) in Awash bank S.C.

While, the fifth item has the lowest mean value (3.83) within the group of managing liquidity risk and intends to take responses on the effectiveness of liquidity risk management in Awash bank S.C. Whereas, the average mean (3.92) highlights a greater value than midpoint and indicates that the selected in Awash bank S.C. are good in liquidity risk management.

According to NBE (2020), this risk is the potential loss caused by a private bank's inability to meet its obligations. The liquidity risk arises due to several reasons including a rapid increase in the sudden demand of the bank's depositors and an inadequate market depth or market disruption. In other hand, Crouhy, Galai and Mark (2006) argue that the insufficient liquidity can provoke a bank towards unexpected cash deficiencies which are needed to be covered at exorbitant costs and decrease profitability.

Finally, the liquidity risk in Awash bank S.C. also found instating to keep up the several financial risks such as market risk, interest rate risk, credit risk, strategic to provokes interest rate risk due to unknown rates of future funding and investment in Awash bank S.C.

4.2.7. Managing Operational Risk

Table 4.8: Managing Operational Risk in Awash bank S.C.			
Item	**Mean**	**Std.**	**N**

		deviation s	
1. There is a proper set of rules and guidelines, for managing operational risk, available in the bank	4.06	.718	189
2. Board and executive management of the bank recognizes, understands and has defined all categories of operational risk applicable to their institution	4.10	.742	189
3. Senior management of the bank transforms the strategic direction given by the board through operational risk management policy	3.78	.903	189
4. The bank has contingency and business continuity plans to ensure its ability to operate as going concern and minimize losses in the event of severe business disruption	3.70	.947	189
5. The bank regularly prepares periodic report of operational risk	3.81	.902	189
Overall scale values	**3.89**	**.621**	**189**

Range Description- Mean Difference: by **Aiken and West (1991).**

1.00-2.50 = Low 2.51-3.50 = Medium 3.51-5.00= Higher

Source: From researcher Owen survey data, 2021.

The mean responses of all items range between 3.70 and 4.10, with an overall average of 3.89 in Table, the second item has the highest mean (4.10) and specifies that board and executive management of the in Awash bank S.C. recognize, understand and has defined all categories of operational risk applicable to their institutions. The overall week Managing Operational Risk in Awash bank S.C. situations for instance political uncertainty, long hours load-shedding and other

such factors have enhanced the level of all these risks in Awash bank S.C. (Khalid and Amjad, 2012; Shafique, Hussain and Hassan, 2013).

On the other hand, the fourth item has the lowest mean (3.70) and assesses the availability of contingency and business continuity plans to ensure in Awash bank S.C. abilities to operate as going concerns and minimize losses in the event of severe business disruptions. The average mean score of all nine items is (3.89) and also is more than the midpoint. This result reveals in Awash bank S.C. are good in managing operational risk.

This description is in line with several other opinions that the operational risk is related to the likelihood of inverse effects on the financial performance as well as the capital of bank that is the outcome of staff members' negligence, inadequate internal processes and inapt management information systems or unpredictable and undesirable external events (Kanchu and Kumar, 2013). The operational risk mostly emerges from the inside activities of bank unlike some other forms of risks like market and credit risk. However, a number of sources of operational risk come from the external environment such as competitive actions, natural disasters (such as floods, earthquakes) and terrorist attacks which are largely unpredictable and uncontrollable by banks (Fayyaz, 2006; Crouhy, Galai and Mark, 2006).

In a general, Awash Banks S.C. takes efforts in order to control and reduce operational risk by: initiating training and development programs for employees (staff

capacity building); making investment in advanced technology (system's capacity building); and developing backup systems and contingency plans.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary

The purpose of this study is to examine the Risk management practice in Awash bank SC. The study is used descriptive survey method and applies a mixed method research strategy by taking the quantitative method as the major component, while the qualitative method plays a supplementary role. Random sampling technique was employed in selecting the representative sample from different levels of Addis Ababa Awash Bank SC. Data was collected from Awash bank S.C. Permanente staff and analysis was carried out using descriptive statistic. Based on the descriptive and analytical analyses results of the questionnaire data, Likewise, the overall usefulness of the risk management practices in Awash.

Based on the study finding that Awash Bank SC's managerial staffs have a common understanding about of risk management. It may give a key indicator of the selected bank's capacity and efficacy in managing possible risk exposures in the future. Moreover, banks have implemented a compressive and systematic risk identification procedure in terms of risk identification, assessment, and control.

However, it was difficult for them to identify their significant threats. the total efficacy of banks' risk management methods in Awash Bank S.C, is highly impacted by controlling credit risk. Favorable link between market risk management and risk management techniques was observed. substantial direct link between managing liquidity risk and risk management practices has been discovered, implying that it is critical for management to devote greater attention to dealing with liquidity risk in order to enhance the risk management practices of local banks.

Furthermore, Risk understanding, risk identification, risk measurement and analysis, risk monitoring and control, managing credit risk, managing market risk, managing liquidity risk, and managing operational risk are all essential parts of Awash Bank S.C.'s risk management procedures

5.2. Conclusion

Based on questionnaire data assessments, this study identified many kinds of hazards. This analysis highlighted credit risk, operational risk, foreign currency risk, and liquidity risk as significant types of risk. These data suggest that increasing risk monitoring and control enhances the effectiveness of risk management systems. Even though the firm's management had a high degree of risk understanding and risk identification, risk monitoring and control were insufficient. Despite the bank's use of a systematic risk identification approach for risk identification, assessment, and control, it was difficult for them to identify their main risks. A positive relationship between market risk management and risk management approaches was discovered. These data imply that minimizing liquidity risk is another critical component of increasing effectiveness. The discovery found a significant direct correlation between managing liquidity risk and risk management practices, meaning that it is necessary for management to dedicate more attention to dealing with liquidity risk in order to improve local banks' risk management practices.

5.3. Recommendations

Based on the research findings, the following recommendations are being made with the goal of assisting banks in improving their risk management practices and systems.

Despite the fact that bank employees and managers share a shared knowledge of risk management, risk monitoring and control were determined to be moderate. As a result, it is advised that the bank's personnel and managers pay more attention to maintaining track of the identified risk, monitoring residual risks, detecting new risks, and assuring performance.

The bank manager should be extensively involved in risk management since the role of an effective risk management system in maintaining banks' profitability and continuity has been well shown. Although risk management is the duty of all personnel at all levels, risk management responsibilities must be explicitly assigned to guarantee management accountability for risk control. Risk must be made visible, quantifiable, and managed at Awash Bank S.C., and a relevant risk culture must be maintained across all processes and activities.

Bank managers should focus on liquidity controlling since controlling liquidity risk is an important component of improving the effectiveness of Awash Bank S.C.'s risk management

methods, banks must maintain a continuous monitoring process to ensure the integrity of risk management controls and systems at all times in order to stay ahead of the competition.

According to the findings of the study, a relationship between controlling liquidity risk and risk management techniques has been identified. As a result, bank managers should participate in risk management practices, which would decrease liquidity risk as well as other risks associated with the banking industry.

Sophisticated and rigorous management strategy should be considered by the managers of the bank since risk understanding, risk identification, risk measurement and analysis, risk monitoring and control, managing credit risk are vital activities in the bank and they are interrelated with liquidity problems. Moreover, risk management are required to implement a comprehensive and rigorous risk management structure that encompasses all activities that affect their risk profiles and consists of identifying, assessing, analyzing, monitoring, and controlling key risks such as credit risk, market risk, liquidity risk, and operational risk.

5.4. Recommendation for Future Research

Future study should extensively explore numerous risks and how Ethiopian banks regularly analyze and quantify each risk in order to manage it effectively, given the rising demand for quality products and services from consumers and investors expecting strong earnings growth. As a result, the banking industry and other related sectors should be made aware of the critical work that has to be done on this subject, beginning with the development of road maps and national initiatives.

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APPENDIX I

ST. MARY'S UNIVERSITY

SCHOOL OF BUSINESS

MBA PROGRAM

Dear respondents

You are invited to participate in the research study of Risk Management in Bank Sector in Ethiopia Case of Awash Bank SC This Study is conducted by Ermias G/Tatyos

Risk management is a keystone of sensible banking and its importance is increasing over the time. The issue of risk management in the banking institutions is a topic of interest not only to the industry players, but also the policy makers. This study will help different stakeholders of banks to understand the impotence and effectiveness of risk management.

This ground breaking research in current study will be conducted by adopting questionnaire survey technique. Your esteemed Awash bank staff have been short listed owing to its size, performance, credibility and qualified of case study. I would like to request you to fill the enclosed questionnaire in order to accomplish our goal of data collection.

I would appreciate your point of view regarding the risk management applications at your bank. Your specific response to the questions here will facilitate me in completing my thesis project. I assure you that all responses to this survey will be kept Strictly Confidential and used for academic research purpose only.

I thank you in advance for your valuable time and participation in this research. Your valuable contribution to this study will open new horizons for the development of banking sector in Ethiopia. For further queries, please do not hesitate to contact the researcher or the director of studies.

PART ONE: DEMOGRAPHICAL CHARACTERISTICS

1. **Gender**

a) Male ☐ b) Female ☐

2. **Age** (Years)

a) 29 and below ☐

b) 30-34 ☐

c) 35-39 ☐

d) 40-44 ☐

e) 45-49 ☐

f) 50 and Above ☐

PART TWO: RISK MANAGAMNT PRACTICE

Please assess the logical structure of the Risk Management Practice determinations which refers to the extent bank that are consistent with the system explain below:

(1) Very Poor	(2) Poor	(3) Neutral	(4) Good	(5) Very Good

I. **Risk Understanding**						
No	**Items**	1	2	3	4	**5**
1	There is a common understanding of risk management across the bank	1	2	3	4	5
2	There is a proper system for understanding various risks	1	2	3	4	5

	implemented in the bank					
3	Responsibility for risk management is clearly set out and understood throughout the bank	1	2	3	4	5
4	Accountability for risk management is clearly set out and understood throughout the bank	1	2	3	4	5
II.	**Risk Identification**					
1	The bank carries out a compressive and systematic identification of its risks relating to each of its declared aims and objectives	1	2	3	4	5
2	The bank finds it difficult to prioritize its main risks	1	2	3	4	5
3	Changes in risks are recognized and identified with the bank's roles and responsibilities	1	2	3	4	5
4	The bank is aware of the strengths and weaknesses of the risk management systems of other banks	1	2	3	4	5
5	The bank has developed and applied procedures for the systematic identification of opportunities	1	2	3	4	5
6	It is crucial for bank to apply the most sophisticated techniques for risk identification	1	2	3	4	5
III.	**Risk Monitoring and Controlling**					
1	Monitoring the effectiveness of risk management is an integral part of routine management reporting	1	2	3	4	5
2	The level of control by the bank is appropriate for the risks that it faces	1	2	3	4	5
3	The bank has adopted a standard reporting system about the risk management form bottom to top management	1	2	3	4	5
4	Reporting and communication processes within the bank support the effective management of risk	1	2	3	4	5
5	The bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses	1	2	3	4	5

6	The bank's response to risk includes action plans in implementation decisions about identified risk	1	2	3	4	5
7	The bank effectively monitors the credit limit of everyone counterparty	1	2	3	4	5
8	The bank reviews the country ratings on regular basis for its international financing and investment	1	2	3	4	5
9	The borrower's business performance is regularly observed by the bank following the extension of financing	1	2	3	4	5
IV.	**Managing Credit Risk**					
1	The credit risk strategy set by the Board of Directors are effectively transformed and communicated within the bank in the shape of policies and procedures by the top management	1	2	3	4	5
2	The bank has an effective risk management framework (infrastructure, process and policies) in place for managing credit risk	1	2	3	4	5
3	The bank has a credit risk rating framework across all type of credit activities	1	2	3	4	5
4	The bank monitors quality of the credit portfolio on day-to-day basis and takes remedial measures as and when any deterioration occurs	1	2	3	4	5
5	The bank regularly prepares periodic report of credit risk	1	2	3	4	5
V.	**Managing Liquidity Risk**					
1	There is a proper set of rules and guidelines, for managing liquidity risk, available in the bank	1	2	3	4	5
2	The liquidity risk strategy set by the Board of Directors are effectively transformed and communicated within the bank in the shape of policies and procedures by the top management	1	2	3	4	5
3	The bank has an effective risk management framework (infrastructure, process and policies) in place for managing liquidity risk	1	2	3	4	5
4	The bank regularly prepares periodic report of liquidity risk	1	2	3	4	5

5	Applications of liquidity risk management techniques reduce costs or expected losses	1	2	3	4	5
VI.	**Managing Operational Risk**					
1	There is a proper set of rules and guidelines, for managing operational risk, available in the bank	1	2	3	4	5
2	Board and executive management of the bank recognizes, understands and has defined all categories of operational risk applicable to their institution	1	2	3	4	5
3	Senior management of the bank transforms the strategic direction given by the board through operational risk management policy	1	2	3	4	5
4	The bank has contingency and business continuity plans to ensure its ability to operate as going concern and minimize losses in the event of severe business disruption	1	2	3	4	5
5	The bank regularly prepares periodic report of operational risk	1	2	3	4	5

If you have some please forward your determination;

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Appendix II: Interview schedule

Dear Respondents

You are invited to participate in the research study of Risk Management in Bank Sector in Ethiopia Case of Awash Bank SC This Study is conducted by Ermias G/Tatyos

Risk management is a keystone of sensible banking and its importance is increasing over the time. The issue of risk management in the banking institutions is a topic of interest not only to the industry players, but also the policy makers. This study will help different stakeholders of banks to understand the impotence and effectiveness of risk management.

I have applied an evaluations practice thinking approach and develop a preliminary to capture and build the behavior of the risk management practical evaluations report in Awash bank SC banks in order to:

- Requested the actual workings of the risk management system of banks (how the outcomes of this system are made in the circular shape of the cause-and-effect relationships)
- Document available of the risk and management practice in banks.

I am conducting face to face interviews with the managers of risk management practice by bank departments in order to refine, validate and add more detail in the preliminary evaluations. I would be grateful if you would help me and allow me to conduct interviews.

Your participation is voluntary and you can refuse to give answer of any question or even to withdraw your involvement at any point of time during the interview.

I assure you that all responses to this interview will be kept *STRICTLY CONFIDENTIAL* and used for academic research purpose only. For further queries, please do not hesitate to contact the researcher or the director of studies.

Thanks, and Kind regards,

<u>Interview questions!!</u>

1. What kind of events can damage banking business and how much damage can be done?

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2. What type of risks are being considered in banking? A preliminary examination of

banking risk. Please indicate the risk currently available?

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3. Who do the bank do the Risk Based Supervision in strengthening credit risk management? practices of Awash bank SC.

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4. What kind of personal actions should be taken by the bank staff in order to manage those risks?"

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5. What is the important method(s) used for measurement and analysis of risk by the bank?

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Thank you for your cooperation's!!