



**ST.MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**ASSESMENT OF RISK MANAGENT PRACTICE IN ETHIOPIAN
COMMERCIAL BANKS**

**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY DEPARTMENT
OF BUSINESS ADMINISTRATION IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION (MBA)**

By: KIDIST TILAHUN

Advisor: ALAZAR AMARE (PhD)

**JUNE, 2025
ADDIS ABABA, ETHIOPIA**

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THESIS TITEL

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COMMERCIAL BANKS**

BY:

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DECLARATION

I, the undersigned, declare that this thesis work is my original work, has not been presented for a degree in this or any other universities, and all sources of materials used for the thesis work have been duly acknowledged.

KIDIST TILAHUN

Signature _____

LETTER OF CERTIFICATION

This is to certify that, Kidist Tilahun has completed his thesis titled assessment of risk management practice in Ethiopian commercial banks under my supervision and guidance. This thesis is original in nature and, in my opinion it is suitable for submission in partial fulfillment of the requirements for the award of Master of Business Administration (MBA).

Advisor

ALAZAR AMARE (PhD)

A handwritten signature in blue ink, appearing to read 'Alazar Amare', with a long horizontal flourish extending to the right.

Signature

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ABBRIVATION AND ACRONYMS

BOD:	Board of Directors
ADB:	Agricultural development bank
CBE:	Commercial bank of Ethiopia
CP:	Contingency plan
CAPM:	Capital Asset Pricing Model
COSO:	Committee of Sponsoring Organizations of the Tread Way Commission
CPA:	A Certified Practicing Accountant
CAR:	Capital Adequacy Ratio
CRM:	Credit Risk Management
ERM:	Enterprise risk management
EIU:	Economist Intelligent Unit
FAMBL:	First Atlantic merchant bank Ghana limited
ISO:	International standard organization
IFIs:	International Financial Institutions
IT:	Information technology
LRM:	Liquidity Risk Management
MIS:	Management Information System
MRM:	Market Risk Management
NFR:	Non - financial risk
NBE:	National Bank of Ethiopia
NPLR:	Non-Performing Loan Ratio
RAROC:	Risk Adjusted Rate of Return on Capital
ROA:	Return on Assets
ROE:	Return on Equity
RMP:	Risk Management Practice
RAA:	Risk assessment and analysis
RI:	Risk identification
RE:	Risk Evaluation
RM:	Risk monitoring
RP:	Required policy in place
SPSS:	Statistical Package software for social science studies
URM:	Understanding risk and risk management
VAR:	Value at Risk

ABSTRACT

This study aimed to assess risk management practices in Ethiopian commercial banks, focusing on both financial risks namely credit, market, and liquidity risks and non-financial risks, including operational, strategic, and reputational risks. A descriptive research design was employed using both qualitative and quantitative approaches, with data collected from 275 respondents across 19 commercial banks using open- and close-ended questionnaires. Participants were purposively selected from departments related to risk management, credit, customer experience, marketing, and strategic planning. Data analysis utilized descriptive statistics mean, frequency, percentage, and standard deviation through SPSS, and results were presented in tables and graphs. Findings indicated that while Ethiopian banks have developed standardized procedures to manage financial risks, there remains a significant gap in addressing non-financial risks, particularly strategic and reputational risks, which are often overlooked in decision-making processes due to limited awareness and poor integration into institutional frameworks. The study recommends implementing a comprehensive risk management system that incorporates strategic and reputational risks into the core banking functions, aligning practices with international standards such as Basel III and ISO 31000, and encouraging the National Bank of Ethiopia to update its regulatory guidelines to include detailed provisions for non-financial risks.

Keywords: *Credit risk. Liquidity risk, Market risk, Operational risk, strategic risk and reputational risk.*

CHAPTER ONE: INTRODUCTION

1. Introduction

The purpose of this thesis was to evaluate financial and non-financial risk management in the context of the Ethiopian commercial banks. The research aimed at establishing the correlation between various risk management frameworks and the difficulties of operations encountered in banks as to make recommendations on what is needed to be enhanced in banks to meet best practice benchmarks. The common areas of financial risk includes credit risk, liquidity risk and market risk whereas non-financial risks captured are operational risk, strategic risk and reputational risk among others. This chapter includes back ground of the study, statement of the problem, research objectives, questions, and scope, as well as the significance of the study and limitation also organization of the paper making it a valuable starting point for the proposed investigation.

1.1 Background of the study

Globally, while financial risks such as credit, market, and liquidity risks remain foundational concerns in banking regulation, the rising prominence of non-financial risks has reshaped the discourse on institutional resilience. Operational disruptions, strategic misalignments, and reputational crises have increasingly emerged as critical threats to bank stability, particularly in a post-digital era. According to McKinsey & Company (2023), non-financial risks now account for more than half of the risk events that lead to substantial financial losses for banks. The Basel Committee on Banking Supervision (2021) has also urged banks to expand their enterprise risk management (ERM) frameworks to encompass operational and reputational dimensions, emphasizing that reputational damage often arises from failures in governance, compliance, or stakeholder communication.

In Sub-Saharan Africa, banking systems continue to face significant challenges in integrating non-financial risk governance into their core strategies. Although credit and liquidity risks are actively monitored, non-financial risks particularly strategic and reputational often remain reactive areas of concern. The Financial Stability Board (2023) observed that operational risk in African banks is magnified by weak internal controls and limited investment in digital infrastructure, which leaves institutions vulnerable to fraud, cyber threats, and service

interruptions. Moreover, reputational risks have become more prominent due to increased regulatory scrutiny and public expectations of ethical conduct and transparency.

In the Ethiopian banking sector, non-financial risks have received limited scholarly and regulatory attention despite their growing significance. Operational risk remains poorly understood at both institutional and supervisory levels. For example, many banks lack integrated systems for internal control, data security, and vendor risk management, exposing them to threats such as process failure, fraud, and system breakdowns (Mengstie et al., 2024). Strategic risks, resulting from misaligned organizational goals, leadership failures, or flawed market positioning, are rarely included in formal risk registers. As the sector becomes more competitive and digitized, the absence of strategic planning and agility increasingly jeopardizes long-term sustainability (Roba & Legass, 2024). Reputational risks in Ethiopian commercial banks are similarly underdeveloped in both recognition and response. While global financial institutions have adopted brand monitoring tools and crisis communication protocols, Ethiopian banks generally manage reputational threats in an ad hoc manner. This gap becomes critical in the context of customer dissatisfaction, service disruptions, or regulatory penalties, all of which can erode public trust and investor confidence (Tibebu, 2024).

Although many Ethiopian commercial banks have made progress in addressing financial risks, non-financial risks remain a blind spot. Operational risks are exacerbated by limited automation, fragmented reporting systems, and a shortage of skilled personnel in risk departments. Strategic risks arise from a lack of adaptive leadership and misalignment between bank missions and rapidly changing market conditions. Reputational risks, though highly consequential, are often considered intangible and therefore excluded from formal governance structures. A survey by Roba and Legass (2024) found that less than 30% of Ethiopian banks include non-financial risks in their periodic risk assessments. Moreover, the National Bank of Ethiopia's existing regulatory framework does not explicitly mandate the identification or reporting of strategic and reputational risks. This institutional gap leaves banks without the necessary tools or incentives to proactively manage these increasingly relevant threats.

Given the rising relevance of non-financial risks globally and their relative neglect within Ethiopian commercial banks, this study aims to fill a critical gap in both academic literature and practical implementation. While financial risks such as credit, liquidity, and market risks are

reasonably well-regulated and researched, operational, strategic, and reputational risks are still not systematically addressed. The lack of integration of non-financial risks into enterprise-wide frameworks significantly undermines institutional resilience, regulatory compliance, and public trust. This research seeks to evaluate the extent to which Ethiopian commercial banks recognize and manage non-financial risks, and how these practices align with international standards such as Basel III and ISO 31000. The goal is to develop actionable insights and recommendations for strengthening risk governance structures, enhancing regulatory policies, and building a sustainable, risk-aware banking culture in Ethiopia.

1.2 Statement of the problem

The past few years have shown how losses in financial institutions have highlighted the need for good risk management for the extended organization. Banks in general are exposed to financial, operational and strategic risks, which mean that practical methods of timely identification of these threats and their subsequent efficient control are needed. In 2015 and 2016, the central bank of Kenya placed three commercial banks under receivership due to non-compliance with regulatory practices. In August 2015, Dubai Bank was put under receivership due to capital and liquidity deficiencies, in October 2015; Imperial Bank was put under receivership by central Bank due to irregularities and malpractices in the bank, In April 2016, Chase bank was put under receivership due to irregularities and liquidity difficulties and not able to meet its financial obligations on the 6th of April 2016. Poor risks management has played a major role in the failure of commercial banks. Most of the Non-performing loans have led to banks not reaching the profitability targets as planned, (Central Bank of Kenya Report, 2016).

Per the account of Chockalingam et al. (2018), risk management in the banking sector is always challenging because of the various risks that are involved in this sector, that is, market risks, credit risks, operational risks, strategic risks and reputational risks. Cyclical changes in market, loan losses and operational risks remain potential threats to the banking and financial institutions.

Strategic risk has emerged as one of the most significant sources of corporate value decline globally. Mok and Saha (2017) report that approximately 86% of major corporate losses in the past decade were attributed to strategic risks, making it one of the most financially damaging risk categories. These risks stem from flawed decision-making, weak competitive positioning, or failure to adapt to dynamic market environments. Despite the global relevance and severity of

strategic risk, there is a noticeable absence of empirical studies or documented estimates within the Ethiopian banking sector that quantify its impact. Existing literature and regulatory frameworks in Ethiopia have predominantly focused on financial risks such as credit, market, and liquidity, while non-financial risks, particularly strategic and reputational, remain underexplored. This highlights a significant gap in both research and practice, warranting a closer investigation into how these overlooked risks affect bank performance and how they are (or are not) being managed within Ethiopian commercial banks. The NBE is currently focusing on financial risk within its guidelines and teaches little about integrating either strategic or reputational risk into core banking functions. Likewise, Adarkwa (2011) posits that the reputation of an organization that is created on so called intangible assets such as goodwill is rapidly gaining importance as a major determinant of the long term organizational success. If this happens, the reputation of an institution is likely to be damaged, many customers are going to lose confidence in the business and regulatory authorities may want to investigate and even impose penalties on the institution, all these translating to huge losses.

To the best of the author's knowledge, there was restricted literature in the Ethiopian banks that had investigated strategic and reputational risks compared to other financial risks: credit risk, liquidity risk, market risk, and operational risk. For instance, Ariam (2021) established that credit, foreign exchange and operational risks are the most common in the Ethiopian banks and also pointed out that risk management is a continuous process. In the same vein, Tibebu (2017) identified liquidity constraints common due to variations and inadequate coordination of fund. Awgchew also pointed that regulating constraints and real time payment challenges are major challenges though Ethiopian private banks have partially complied with the Basel principles for managing the liquidity risk. However, even in this case, strategic and reputational risks are still insufficiently covered by research and practitioners.

Besides, digital banking, fast changes in what customers want, new standards set by regulators, and competition from fin-tech firms have increased the complexity of risk for banks. Such changes show why organizations must rethink and expand their risk management strategies past the usual financial indicators.

So far, previous research in Ethiopia, such as that of Ariam (2021) and Awgchew (2017), has focused mainly on credit and liquidity risks, although few studies have looked at how banks

address other general types of risks. Because there is no integrated ERM framework in place, strategies to manage risk are often broken off into separate units, and this may cause the company to react to risks in the moment rather than plan ahead.

In addition, Ethiopian banks face challenges in managing non-financial risks due to limitations in systems, technology, and skilled personnel. Ineffective communication with stakeholders, ethical lapses, and weak governance structures can negatively impact corporate reputation and market share. However, these risks are often not formally addressed in existing policies or operational procedure.

Despite the growing complexity of risks in the banking sector, particularly with the rise of digital banking, evolving customer expectations, and increasing regulatory demands, Ethiopian commercial banks continue to focus primarily on financial risks such as credit, liquidity, and market risks. However, strategic and reputational risks, key drivers of long-term institutional failure, remain significantly underexplored and poorly integrated into risk management frameworks. The current regulatory guidelines issued by the National Bank of Ethiopia offer limited direction on how to address these non-financial risks effectively. Furthermore, most banks in Ethiopia lack a unified Enterprise Risk Management (ERM) system, leading to fragmented and reactive approaches to risk. This creates a serious vulnerability, as unmanaged strategic and reputational risks can undermine customer trust, damage brand value, and threaten the overall stability of financial institutions. Therefore, there is a clear and urgent need for research that focuses on assessing how these non-financial risks are managed, and how Ethiopian banks can adopt more integrated, forward-looking risk management practices aligned with global standards. The purpose of this study is to analyze financial and non-financial risks in Ethiopian commercial banks .It endeavored to offer a comprehensive account of risk management, where earlier studies have lacked. The study made recommendations to improve risk management to achieve better international benchmarks and continually strengthen the stability of the Ethiopian banking system.

1.3 Research Questions

To address purpose and objectives of the study, the following research questions have been addressed.

1. How do the banks manage financial risks?
2. How do the banks address operational risk?
3. What measures are in place for managing strategic risks within the banks?
4. How do the banks manage reputational risks?

1.4 Objective of the Study

1.4.1 General Objective of the Study

The general objective of the study is to assess risk management practices of the Ethiopian commercial banks.

1.4.2 Specific Objectives

The specific objectives of this study are:

1. To assess the financial risk management practices implemented by the banks.
2. To evaluate the operational risk management employed by the banks
3. To analyze the strategic risk management approaches adopted by the banks.
4. To investigate the reputational risk management practices within the banks.

1.5 Significance of the Study

The main objective of this study was the assessment of risk management practices in Ethiopian commercial banks. Therefore, the study is expected to provide how the risk management practice looks like in Commercial Banks of Ethiopia both in financial and non-financial risk management practices. Furthermore, the findings and recommendations of the study could serve as an ingredient and be informative to the banks as well as to the regulatory body in the country.

It could also give a general insight to the academic & professional society regarding risk management aspects. In addition to this the findings of the study could serve as a reference material for anyone who will undertake further study on the same or related topic.

1.6 Scope of the Study

The scope of this study was structured into three key dimensions: Although often neglected in methodological writings, it is possible to distinguish the following three types of scope:

conceptual scope, methodological scope, and geographical scope, which define the limits and foci of the research.

Conceptual Scope:

The emphasis of this research was to evaluate the extent of risk management approaches implemented in Ethiopian commercial banks in terms of these particular financial risks: credit risk, liquidity risk, and market risk and the non-financial risks: operations risk, strategic risk, and reputational risk. Although managerial work on financial risks has already attracted considerable attention in existing literature, the integration of strategic and reputational risks is a relatively unexplored component of risk management in the Ethiopian banking sector. The research has the following objectives: To describe how the identified risks are managed, measured, and monitored as well as the use of techniques and tools in the banking sector.

Methodological Scope:

In this study, the approach used was the mixed/ quantitative and qualitative research, including both quantitative and qualitative data collection and analysis instruments. Quantitative data was obtained from close-end questionnaires that were administered to representatives from the department of Risk Management and Control, Strategic Planning, Credit Management, Marketing, and Customer Relations Departments. Secondary data was collected from journals, newspapers, government and non-government reports and documents and policy documents. To analyze data, descriptive statistical methods were applied also the usage of SPSS software enables to present findings in a meaningful approach.

Geographical Scope:

From a geographical perspective, the study targeted the commercial banks operating in Ethiopia with some of them being used as sample cases. It did not embrace other financial institutions including microfinance institutions, insurance firms, or investment firms. The greater part of the research was conducted in Addis Ababa because it is centralized with almost all Ethiopian commercial banks' head office; and most importantly, it facilitated easy access to some key decision makers as well as key records.

1.7 Limitations of the study

The use of a descriptive research method restricted the ability to explore cause-and-effect relationships and relied heavily on self-reported data, which may be affected by response bias. Geographical concentration in Addis Ababa limits the generalizability to regional bank branches. The purposive sampling technique may not fully represent all relevant stakeholders, and time constraints mean the findings reflect practices only at a specific point. Additionally, limited access to internal data and the absence of triangulation with interviews or document reviews reduced the depth of analysis. Finally, differences in respondents' understanding of risk concepts may have influenced the consistency of responses.

1.8 Organization of the Paper

To answer the research questions and achieve the above stated objectives, this study was organized in to five chapters. Chapter one consists of the introduction part, background of the study, statement of the problem, research questions, objective of the study, significance of the study, scope and limitations of the study. The second chapter of this study discussed literatures available in the areas of risk management which includes defining of the terms and concepts, review of theoretical and empirical literature, and designing of conceptual frame work on assessment of risk management practice in Ethiopian commercial banks. Methodology of the research, which includes research design, the data collection methods and tools, the sources of data, sampling design, Data analysis methods and description of variables to be used in the research has been presented in the third chapter. The fourth chapter presents the results and discussions of the research study, based on data collected by the researcher from primary and secondary sources of data. The final chapter summarizes the findings of the research work; conclude the results and forward recommendations based on the findings of the study.

CHAPTER TWO: REVIEW OF RELATED LITERATURE

2. Introduction

This chapter presents a systematic literature review of the research study in consideration of the theoretical background relative to risk management in the commercial banks. It explains basic ideas and theories of successful operational risk management and provides practitioner knowledge how proposed theories work in practice to identify, evaluate and control such risks. This chapter also analyzes the major risks affecting the commercial banks, namely credit risk, market risk, operational risk, liquidity risk and reputational risk. In addressing each of the risk types, the research seeks to establish the possible consequence of the cause and the management techniques used by the banks.

Besides, an empirical review section is included to present the state-of-art studies reviewing prior research, listing and comparing the practices, issues and patterns of banks risk management. Furthermore this chapter presents the gaps in the current literature and how this work seeks to fill them.

In conclusion, this chapter lays the groundwork for the remainder of the study; synthesize theory with evidence by providing a grounded theoretical perspective regarding risk management in the banking subsector.

2.1. Definition of Risk

In most economic publications, risk refers to the negative deviation from the plan (Maylor, 2010). Ghosh (2015) 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. Every business faces risk, some are predictable and under management's control and some are unpredictable and hence uncontrolled. We can take risks as an opportunity to get higher returns because higher risks are associated with higher returns (Mehmood, and Zhang, 2010).

A risk can be defined as an unplanned event with financial consequences resulting in loss or reduced earnings (Vasavada, Kumar, Rao & Pai, 2005). An activity, which may give profits or

result in loss, may be called a risky proposition due to uncertainty or unpredictability of the activity of trade in future. In other words, it can be defined as the uncertainty of the outcome.

Risks may be defined as uncertainties resulting in adverse outcome, adverse in relation to planned objective or expectations (Kumar et al, 2005). In the simplest words, risk may be defined as possibility of loss. It may be financial loss or loss to the reputation/ image (Sharma, 2003). Although the terms risk and uncertainty are often used synonymously, there is difference between the two (Sharma, 2003). Uncertainty is the case when the decision-maker knows all the possible outcomes of a particular act, but does not have an idea of the probabilities of the outcomes. On the contrary, risk is related to a situation in which the decision-maker knows the probabilities of the various outcomes.

Osborne (2012) has indicated that, “Risks can arise as a result of our business’s activities or as a result of external factors such as legislation, market forces, and interest or exchange rate fluctuations, the activities of others or even the weather. They can be a product of business environment, the natural environment, and the political or economic climate or of human inadequacies, failing or errors. The bottom line is that risk may impact on our ability to meet our business objectives or even threaten the business itself.”

The types and the degree of effect of risk defers among business organizations, even within industry level as they might differ in their size, complexity of task, types of service or product being offered or organizational structure. Thus, risks that business organizations face are inherent to their operations or endeavors. As to the classification of risk Jorion and Khoury (1996) argument has cited by Khan and Ahmed (2001) discusses that, there are different ways in which risks are classified. One way is to distinguish between business risk and financial risks. Business risk arises from the nature of a firm’s business. It relates to factors affecting the product market. Financial risk arises from possible losses in financial markets due to movements in financial variables (Jorion and Khoury 1996). It is usually associated with leverage with the risk that obligations and liabilities cannot be met with current assets (Gleason 2000).

2.1.1 Types of Risk in Banking Sector

According to Raymond (2012), financial risk management is the quality control of finance. It is a broad term used for different senses for different businesses or things but basically it involves

identification, analyzing, and taking measures to reduce or eliminate the exposures to loss by an organization or individual.

Financial risk management is the task of monitoring financial risks and managing their impact. It is a sub-discipline of the wider function of risk management and an application of modern financial theory and practice (Moles, 2016). Banking is the intermediation between financial savers on one hand and the funds seeking business entrepreneurs on the other hand. As such, in the process of providing financial services, banks assume various kinds of risk both financial and non-financial. Moreover, this risk inherent in the provision of their services differs from one product or service to the other (Adarkwa, 2011). These risks have been grouped by various writers in different ways to develop the frameworks for their analyses.

Crouhy et al. (2006) formulate a different classification of risks in banks that credit risk, market risk, liquidity risk, operational risk, business risk, legal risk, reputation risk and strategic risk.

2.1.1.1 Credit Risk

According to Okehi (2014), credit risk is the consequence of borrower's refusal or inability to pay what is owed when required. Credit risk therefore is the exposure faced by a bank as a result of a borrow default in meeting a debt obligation at maturity. The cumulative effect of these defaults could result to financial distress of a bank if not managed appropriately. Banks are therefore expected to maintain their credit risk exposure within acceptable limit by maximizing their risk adjusted rate of return for the enhancement of their profit.

Hempel and Simonson (1999) have defined credit risk as the possibility of losses associated with decrease in the credit quality of the borrower or the counter parties. In the bank's portfolio, losses stem from outside default due to inability or unwillingness of the customer or the counter party to meet the commitments, losses may also result from reduction in the portfolio value arising from actual or perceived deterioration in credit quality.

Greuning and Bratanovic (2009) define credit risk as the chance that a debtor or issuer of a financial instrument whether an individual, a company, or a country will not repay principal and other investment-related cash flows according to the terms specified in a credit agreement.

Credit risk can be “firm-specific” or “systematic”. The former is the risk of default of the borrowing firm associated with the specific type of projects entered into by the bank. On the other hand, systematic credit risk relates to default associated with general economic or macroeconomic factors affecting all borrowers [Saunders and Cornett (2006)]. Credit risk is a major challenge for banks during recessionary times when customers are unable to adequately service their loans. The objective of credit risk management is to maximize a bank’s risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

According to many literatures more than half percent of a bank’s balance sheet generally relates to credit risk and hence considered as the principal cause of potential losses and bank failures. In the market universe, a deterioration of credit standing of a borrower does materialize into a loss because it generates an upward move of the required market yield to compensate the higher risk and triggers a value decline (Bessis, 2010).

Normally the financial conditions of the borrower as well as the current value of any underlying collateral are of considerable interest to banks when evaluating the credit risks of obligors or counterparties (Santomero, 1997).

According to Greuning and Bratanovic (2009), formal policies lay down by the board of directors of a bank and implemented by management plays a vital part in credit risk management. As a matter of fact, a bank uses a credit or lending policy to outline the scope and allocation of a bank’s credit facilities and the manner in which a credit portfolio is managed that is, how investment and financing assets are originated, appraised, supervised, and collected.

2.1.1.2 Liquidity Risk

The second type of risk inherent in banking operation is the Liquidity risk. Liquidity is the ability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The issue of banks transforming short-term deposits into long term loans makes banks inherently vulnerable to liquidity risk. Liquidity risk is therefore the possibility that over a specific time period, the bank will become unable to settle obligations with immediacy (Okehi 2014).

Gup and Kolari (2005) define liquidity risk as the risk to earnings or capital related to a bank’s ability to meet its obligations to depositors and the needs of borrowers by turning assets into cash

quickly with minimal loss, being able to borrow funds when needed, and having funds available to execute profitable securities trading activities. Liquidity risk is a major risk for the bank portfolio, in that, in extreme cases it could result in bankruptcy. The Basel Committee on Bank Supervision, in its June 2008 consultative paper, defined liquidity as the ability of a bank to fund increases in assets and meet obligations as they become due, without incurring unacceptable losses.

Bessis (2010) however considers liquidity risk from three distinct situations. The first angle is where the bank has difficulties in raising funds at a reasonable cost due to conditions relating to transaction volumes, level of interest rates and their fluctuations and the difficulties in funding counterparty. The second angle looks at liquidity as a safety cushion, which helps to gain time under difficult situations. In this case, liquidity risk is defined as a situation where short-term asset values are not sufficient to match short-term liabilities or unexpected outflows. The final angle from where liquidity risk is considered as the extreme situation. Such a situation can arise from instances of large losses, which creates liquidity issues and doubts on the future of the bank.

There are many factors that affect banks own liquidity and in turn affect the amount of liquidity they can create. These factors have a varying degree of influence on the balance between liquidity risk and liquidity creation, or a bank's liquidity management. A bank's assets and liabilities play a central role in their balancing of liquidity risk and creation. A bank's liabilities include all the banks sources of funds. Banks have three main sources of funds: deposit accounts, borrowed funds, and long-term funds. The amounts and sources of funds clearly affect how much liquidity risk a bank has and how much liquidity it can create. The easier a bank can access funds the less risk it has and the higher amount of funds it holds the more liquidity it can create. Liquidity is necessary for banks to compensate for expected and unexpected balance sheet fluctuations and to provide funds for growth (Greuning and Bratanovic, 2009).

Santomero (1995) however, suggests that while some would include the need to plan for growth and unexpected expansion of credit, the risk here should be seen more correctly as the potential for funding crisis. Such a situation would inevitably be associated with an unexpected event, such as a large charge off, loss of confidence, or a crisis of national proportion such as a currency crisis. Effective liquidity risk management therefore helps ensure a bank's ability to meet cash

flow obligations, which are uncertain as they are affected by external events and other agents' behavior.

2.1.1.3 Market Risk

Saunders and Cornett (2006) define market risk as the possibility of loss to bank caused by the changes in the market variables. It is the risk that movements in equity and interest rate markets, currency exchange rates and commodity prices will adversely affect the value of on-/off-balance sheet positions. Market risk is the risk to the banks' earnings and capital due to changes in the market level of interest rates or prices of securities, foreign exchange and equities, as well as the volatilities, of those prices. Market risk management provides a comprehensive framework for measuring, monitoring and managing interest rate, foreign exchange and equity as well as commodity price risk of a bank that needs to be closely integrated with the bank's business strategy. The following are types of market risks; interest rate risk and foreign exchange risk.

i. Interest Rate Risk

Interest rate risk is the potential negative impact on the net interest income and it refers to the vulnerability of an institutions financial condition to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liability off-balance sheet items and cash flow. Earnings perspective involves analyzing the impact of changes in interest rates on accrual or reported earnings in the near term. This is measured by measuring the changes in the Net Interest Income (NII) equivalent to the difference between total interest income and total interest expense as Gleason (2000).

Though interest rate risk is obvious for borrowers and lenders with variable rates, those engaged in fixed rate transactions are not exempt from interest rate risks because of the opportunity cost that arises from market movements (Bessis, 2010).

According to Greuning and Bratanovic (2009), the combination of a volatile interest rate environment, deregulation, and a growing array of on and off-balance-sheet products have made the management of interest rate risk a growing challenge. At the same time, informed use of interest rate derivatives such as financial futures and interest rate swaps can help banks manage and reduce the interest rate exposure that is inherent in their business. Bank regulators and supervisors therefore place great emphasis on the evaluation of bank interest rate risk

management, particularly since the Basel Committee recommends the implementation of market risk based capital charges.

Greuning and Bratanovic (2009) imagine that banks encounter interest rate risk from four main sources namely re-pricing risk, yield curve risk, basis risk, and optionality. The primary and most often discussed source of interest rate risk stems from timing differences in the maturity of fixed rates and the re-pricing of the floating rates of bank assets, liabilities, and off-balance sheet positions. The basic tool used for measuring re-pricing risk is duration, which assumes a parallel shift in the yield curve. According to Adarkwa (2011) interest rate risk management comprises various policies, actions and techniques that a bank uses to reduce the risk of diminution of its net equity as a result of adverse changes in interest rates from any of the sources mentioned above.

Risk factors related to interest rate risk are estimated in each currency in which a bank has interest-rate-sensitive on and off-balance sheet positions. Since interest rate risk can have adverse effects on both a bank's earning and its economic value, an approach which focuses on the impact of interest rate changes on a bank's net interest income is combined with another which takes a more comprehensive view of the potential long-term effects of such interest rates changes on its economic value is used to assess the interest risk exposure (Adarkwa, 2011).

ii. Foreign Exchange Risk

Raghavan (2003) defines foreign exchange risk as the risk that a bank may suffer loss because of adverse exchange rate movement during a period in which it has an open position, either spot or forward or both in same foreign currency. Even in case where spot or forward positions in individual currencies are balanced the maturity pattern of forward transactions may produce mismatches. There is also a settlement risk arising out of default of the counter party and out of time lag in settlement of one currency in one center and the settlement of another currency in another time zone. Banks are also exposed to interest rate risk, which arises from the maturity mismatch of foreign currency position as Saunders and Cornett (2006).

In principle, the fluctuations in the value of domestic currency that create currency risk result from long-term macroeconomic factors such as changes in foreign and domestic interest rates and the volume and direction of a country's trade and capital flows. Short-term factors, such as

expected or unexpected political events, changed expectations on the part of market participants, or speculation based currency trading may also give rise to foreign exchange changes. All these factors can affect the supply and demand for a currency and therefore the day-to-day movements of the exchange rate in currency markets (Greuning and Bratanovic, 2009). Foreign exchange risk is generally considered to comprise of transaction risk, economic risk and revaluation risk. Transaction risk is the price-based impact of exchange rate changes on foreign receivables and foreign payables, that is, the difference in price at which they are collected or paid and the price at which they are recognized in local currency in the financial statements of a bank or corporate entity.

Alternatively known as business risk, economic risk relates to the impact of exchange rate changes on a country's long-term or a company's competitive position. With increasing globalization, capital moves quickly to take advantage of changes in exchange rates and therefore devaluations of foreign currencies can lead to increased competition in both overseas and domestic markets. This phenomenon makes this component of foreign exchange risk very critical for its management. The third component, revaluation or translation risk arises when a bank's foreign currency positions are revalued in domestic currency, and when a parent institution conducts financial reporting or periodic consolidation of financial statements.

2.1.1.4 Operational Risk

The New Basel Accord defines operational risk as “the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.” It is the potential financial loss as a result of breakdown in day-to-day operational processes. It can arise from failure to comply with policies, laws and regulations, from fraud or forgery (Njogo, 2012). These include direct and indirect losses resulting from inadequate or failed internal processes, people and systems or from external event. In order to mitigate this, internal control and internal audit systems are used as the primary means.

Malfunction of the information systems, reporting systems, internal monitoring rules and internal procedures designed to take timely corrective actions, or the compliance with the internal risk policy rules result in operational risks (Bessis, 2010). Operational risks, therefore, appear at different levels, such as human errors, processes, and technical and information technology. Because operational risk is an event risk, in the absence of an efficient tracking and reporting of

risks, some important risks will be ignored, there will be no trigger for corrective action and this can result in disastrous consequences. Developments in modern banking environment, such as increased reliance on sophisticated technology, expanding retail operations, growing ecommerce, outsourcing of functions and activities, and greater use of structured finance (derivative) techniques that claim to reduce credit and market risk have contributed to higher levels of operational risk in banks (Greuning and Bratanovic, 2009).

The recognition of the above-mentioned contributory factor in operational risk has led to increased attention on the development of sound operational risk management systems by banks with the initiative being taken by the Basel Committee on Banking Supervision. The Committee addressed operational risk in its Core Principles for Effective Banking Supervision (1997) by requiring supervisors to ensure that banks have risk management policies and processes to identify, assess, monitor, and control or mitigate operational risk. In its 2003 document, Sound Practices for the Management and Supervision of Operational Risk, the Committee further provided guidance to banks for managing operational risk, in anticipation of the implementation of the Basel II Accord, which requires a capital allocation for operational risks. Despite all these efforts by the regulators at addressing operational risk, practical challenges exist when it comes to its management.

In the first place, it is difficult to establish universally applicable causes or risk factors that can be used to develop standard tools and systems of its management since the events are largely internal to individual banks. Moreover, the magnitude of potential losses from specific risk factors is often not easy to project. Lastly, it is difficult designing an effective mechanism for systematic reporting of trends in a bank's operational risks because very large operational losses are rare or isolated. Because of the data and methodological challenges raised by operational risk, the first stage of developing an effective framework to manage it is to set up a common classification of loss events that should serve as a receptacle for data gathering process on event frequency and costs.

The data gathered is then analyzed (risk mapping) with various statistical techniques such as graphical representation of the probability and severity of risks. This helps to find the links between various operational risks. The process then ends with some estimates of worst-case losses due to events risks. Modeling of loss distributions due to operational risks will enable the

right capital charges to be made for operational risk as required by current regulations (Bessis, 2010).

2.1.1.5 Strategic Risk

Crouhy et al. (2006), define strategic risk as, “the risk of significant investments for which there is a high uncertainty about success and profitability”. 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. Strategic risk refers to potential losses deriving from top management’s strategic choices (Tyrell, 2008).

Strategic risk is a possible source of loss that might arise from the pursuit of unsuccessful business plan. For example, strategic risk might arise from making poor business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment (Business, 2014).

Slywotzky and Drzik (2005), define strategic risk as the array of external events and trends that can devastate a company’s growth trajectory and shareholder value. Whiles these two authors consider strategic risk as a sole consequence of external occurrences; other authors look at strategic risk as the current and prospective impact on earnings and/or capital arising from internal business activities such as adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

Emblemsvag and Kjolstad (2002), also define strategic risk as risk which arises as a firm pursues its business objectives either by exploiting opportunities and/or reducing threats. Whichever way this is considered, strategic risk encompasses a variety of uncertainties which are not financial in nature, but rather credit or operational related caused by macro-economic factors, industry trends or lapses in a firm „s strategic choices which affects the firm „s earnings and shareholders „value adversely. Strategic risks often constitute some of a firm’s biggest exposures and therefore can be a more serious cause of value destruction.

Slywotzky and Drzik (2005), attempted to identify significant events which contribute to strategic risk and categorized them into seven main classes. These include industry margin squeeze, threat of technology shift which has the possibility of driving some products and services out of the market, brand erosion, emergence of one-of-a-kind competitor to seize the

lion share of value in the market, customer priority shift, and new project failure and market stagnation. The idea was to provide a framework for assessing a company's strategic risks and develop counter measures to address them. The authors intimate that the key to surviving strategic risks is; knowing how to assess and respond to them and therefore devoting resources to it. They also advice management to adjust their capital allocation decisions by applying a higher cost of capital to riskier projects and to build greater flexibility into their capital structure when faced with riskier competitive environments.

It should seek to counter all losses, both from accidents and from unfortunate business judgments, and seize opportunities for gains through organizational innovation and growth. Seizing upside risk involves searching for opportunities and developing plans to act on these opportunities when the future presents them. Countering downside risk on the other hand is done by reducing the possibility of occurring (probability) and scope (magnitude) of losses; and financing recovery from these losses (Herman and Head, 2002).

2.1.1.5.1 Sources of Strategic Risk

In a business setting, managers must be sensitive to conditions that can cause specific categories of risk to become dangerous. These conditions are a function of the business strategy chosen by top managers. To effectively manage their business, all managers must assess strategic risk an unexpected event or set of conditions that significantly reduces the ability of managers to implement their intended business strategy.

We consider three basic sources of strategic risk that potentially affect every business: operations risk, asset impairment risk, and competitive risk. If the magnitude of any of these risks becomes sufficiently large, the firm becomes exposed to franchise risk (Simons, 1999).

2.1.1.5.2 Managing Strategic Risk

According to Lam, (2016) managing strategic risk involves several key components. It begins with Strategic Planning and Review, where companies use frameworks like SWOT analysis to identify strengths, weaknesses, opportunities and threats, guiding new initiatives. Risk appetite is then defined, focusing on potential impacts on earnings or enterprise value from adverse decisions or industry shifts. Next, companies must determine the optimum risk profile, recognizing that not all risk curves are alike. Risk-based pricing decisions follow, ensuring

returns by incorporating risk costs into pricing. Risk transfer strategies help manage exposures from M&A or inefficient core operations. Scenario analysis is used to evaluate potential impacts of various events through “what-if” assessments. Developing key risk indicators (KRIs) is critical but challenging for most firms. Finally, integrated performance and risk monitoring focuses on mitigating downside risk and optimizing overall risk-return trade-offs.

2.1.1.6 Reputation Risk

Reputational risk refers to exposure to losses stemming from reputational impairment. The reduced reputation may be due to perceived incompetence, negligence or misconduct of the institution (Tyrell, 2008).

According to Basel (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 funding (Ishfaq, 2006).

Reputational risk is multidimensional and reflects the perception of other market participants. Furthermore, it exists throughout the organization and exposure to reputational risk is essentially a function of the adequacy of the bank’s internal risk management processes, as well as the manner and efficiency with which management responds to external influences on bank-related transactions (Adarkwa, 2011).

2.1.1.6.1 Sources of Reputational Risk

According to Adarkwa (2011), the biggest threat to reputation is seen to be a failure to comply with regulatory/legal obligations governing corporate conduct. However, the perception that an organization is unable to manage such risks can plant doubt in the minds of its partners, clients and regulators, diverting potential business elsewhere and causing a more intrusive and costlier regulatory stance. These are the ultimate benchmarks against which conduct is measured and can be the origins of key reputational losses.

2.1.1.6.2 Valuing Reputational Risk

Lerbinger (1997), argues that the “erosion of a company’s reputation is the greatest danger of a crisis.” In terms of vulnerability to reputational risk, it is important to note that not all firms are

alike in their reputation-sensitivity. There is a general consensus among reputational risk specialists that financial firms are more reputation-sensitive than non-financial companies. One reason for this may be that clients' switching and contracting costs are generally lower for financial firms, and thus they are particularly open to the discipline of the markets. As well, given that companies in the financial markets are operating with other people's money, they may be especially sensitive to any wavering of confidence in their brand.

For the majority of enterprises, it is seen as the most critical risk, as reputation is becoming a key source of competitive advantage as products and services become less differentiated. While firms today recognize the value of brand definition as competitive advantage in the marketplace, reputation remains an often underestimated component of a company's value (Adarkwa, 2011).

2.1.1.6.3 Reputational risk management framework

According to reputation institute consultancy, the reputational risk management framework consists of seven key dimensions. These include product, where the organization offers high-quality, good-value products and services that meet customer needs; innovation emphasizing the organization's ability to bring new product to market; and workplace, which involves offering equal opportunities in the work environment. Governance focuses on transparency and honesty in business practices, while citizenship reflects environmental responsibility and positive societal influence. Leadership highlights having a clear future vision and strong, appealing leadership and performance refers to delivering strong financial results that ensure the company's long-term sustainability.

2.1.2 Risk Management in Banking

Risk Management is described as the performance of activities designed to minimize the negative impact (cost) of uncertainty (risk) regarding possible losses (Schmidt and Roth, 1990). Redja (1998) also defines risk management as a systematic process for identify, evaluation of pure loss exposure faced by an organization or an individual, and for the selection and implementation of the most appropriate techniques for treating such exposures. The process involves: identification, measurement, and management of the risks. Risk management can be regarded as an active, strategic, and integrated process that encompasses both the measurement and the mitigation of risk, with the ultimate goal of maximizing the value of a bank, while minimizing the risk of bankruptcy (Schroeck, 2002).

According to Santomero (1995), the management of the banking firm relies on a sequence of steps to implement a risk management system. These normally contain four parts, which are standards and reports, position limits or rules, investment guidelines or strategies and incentive contracts and compensation.

These tools are generally established to measure exposure, define procedures to manage these exposures, limit individual positions to acceptable levels, and encourage decision makers to manage risk in a manner that is consistent with the firm's goals and objectives.

Bessis (2010) indicates that the goal of risk management is to measure risks in order to monitor and control them, and also enable it to serve other important functions in a bank in addition to its direct financial function. These include assisting in the implementation of the bank's ultimate strategy by providing it with a better view of the future and therefore defining appropriate business policy and assisting in developing competitive advantages through the calculation of appropriate pricing and the formulation of other differentiation strategies based on customer's risk profiles.

2.1.2.1 Techniques of Risk Management

2.1.2.1.1 GAP Analysis

It is an interest rate risk management tool based on the balance sheet which focuses on the potential variability of net-interest income over specific time intervals. In this method a maturity/re-pricing schedule that distributes interest sensitive assets, liabilities, and off-balance sheet positions into time bands according to their maturity (if fixed rate) or time remaining to their next re-pricing (if floating rate), is prepared. These schedules are then used to generate indicators of interest-rate sensitivity of both earnings and economic value to changing interest rates (Alam & Masukujjaman, 2011).

The information on GAP gives the management an idea about the effects on net-income due to changes in the interest rate. Positive GAP indicates that an increase in future interest rate would increase the net interest income as the change in interest income is greater than the change in interest expenses and vice versa (Cumming et al. 2001).

2.1.2.1.2 Value at Risk (VAR)

Value at risk is a quantitative tool to measure the market risk. VAR is widely used by almost all the famous financial institutions including banks, hedge funds and private equity firms to measure risk. In the last decade, VAR has become the established measure of risk exposure in financial service firms and has even begun to find acceptance in non-financial service firms. Although there are also some other risk measuring techniques, but VAR is one of the best risk measurement tools (Mehmood and Zhang, 2010).

The Value at Risk (VAR) indicates how much a firm can lose or make with a certain probability in a given time horizon. VAR summarizes financial risk inherent in portfolios into a simple number and also it incorporates many other risks like foreign currency, commodities, and equities (P. Jorion, 2001).

2.1.2.1.3 Risk Adjusted Rate of Return on Capital (RAROC)

It gives an economic basis to measure all the relevant risks consistently and gives managers tools to make the efficient decisions regarding risk/return tradeoff in different assets. As economic capital protects financial institutions against unexpected losses, it is vital to allocate capital for various risks that these institutions face. Risk Adjusted Rate of Return on Capital (RAROC) analysis shows how much economic capital different products and businesses need and determines the total return on capital of a firm (Crouhy et al. 2001).

2.1.2.1.4 Securitization

It is a procedure studied under the systems of structured finance or credit linked notes. Securitization of a bank's assets and loans is a device for raising new funds and reducing bank's risk exposures. The bank pools a group of income-earning assets (like mortgages) and sells securities against these in the open market, thereby transforming illiquid assets into tradable asset backed securities. As the returns from these securities depend on the cash flows of the underlying assets, the burden of repayment is transferred from the originator to these pooled assets (Alam & Masukujjaman, 2011).

2.1.2.1.5 Sensitivity Analysis

It is very useful when attempting to determine the impact, the actual outcome of a particular variable will have if it differs from what was previously assumed. By creating a given set of

scenarios, the analyst can determine how changes in one variable(s) will impact the target variable (Alam & Masukujjaman, 2011).

2.1.2.1.6 Internal Rating System

An internal rating system helps financial institutions manage and control credit risks they face through lending and other operations by grouping and managing the credit-worthiness of borrowers and the quality of credit transactions (Alam & Masukujjaman, 2011).

2.1.2.2 Rationales for Risk Management in Banking

In this section, the case for active risk management at the individual firm level is made from a number of perspectives, including that of shareholders, debt holders, customers, managers, and regulators. Overall, a strong case for risk management, resting on a number of market imperfections becomes apparent. This suggests why, even though in stylized, perfect markets risk management would be irrelevant, empirically; most financial institutions take risk management very seriously (Tyrell, 2008).

The main aim of management of banks is to maximize expected profits taking into account its variability/volatility (risk). This calls for an active management of the risk in order to get the desired results. Risk management is therefore an attempt to reduce the volatility of profit, which has the potential of lowering the value of shareholders' wealth. Various authors including Smith et al (1990) and Froot et al (1993), have offered reasons why managers should concern themselves with the active management of risks in their organizations.

The prudent bank avoids losses but it might suffer from lower market share and lower revenues. However, after a while, the risk taker might find out that higher losses materialize, and obtain an ex post performance lower than the prudent lender performance (Bessis, 2002).

Those banking institutions that actively manage their risks have a competitive advantage. They take risks more consciously, they anticipate adverse changes, they protect themselves from unexpected events and they gain the expertise to price risks. The competitors who lack such abilities may gain business in the short term. Nevertheless, they will lose ground with time, when those risks materialize into losses (Ayalew, 2014).

According to Oldfield and Santomero (1995), recent review of the literature presents four main rationales for risk management. These include managers' self-interest of protecting their positions and wealth in the firm. It is argued that due to their limited ability to diversify their investments in their own firms, they are risk averse and prefer stability of the firm's earnings to volatility. This is because, all things being equal, such stability improves their own utility. Beyond managerial motives, the desire to ensure the shouldering of lower tax burden is another rationale for managers to seek for reduces volatility of profits through risk management. With progressive tax schedule, the expected tax burden is reducing when income smoothens therefore activities which reduce the volatility of reported taxable income are pursued as they help enhance shareholders' value.

According to Adarkwa (2011), this undesirable outcome encourages managers to actively embark upon volatility reducing strategies, which have the effect of reducing the variability of earnings. It is believed that any of the above mentioned rationales is sufficient to motivate management to concern itself with risk and embark upon a careful assessment of both the level of risk associated with any financial product and potential risk mitigation techniques.

2.1.3 Basic Elements of Sound Risk Management System

The 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 (Tahir, 2006). According to NBE guideline sound risk management system of each bank should at least contain the following elements:

Board and senior Management oversight

Boards of directors have ultimate responsibility for the level of risk taken by their banks. All members of board of directors are responsible for understanding the nature of the risks significant to their organizations and for insuring that the management is taking the steps necessary to identify and measure, monitor and control these risks.

Senior management oversight: Senior management is responsible for implementing strategies in a manner that limits risks associated the banks activities. Senior management is also

responsible for establishing and communicating a strong awareness of and need for effective internal control and high ethical standards

Policies and procedures: The board of directors and senior managements should tailor their risk management policies and procedures to the types of risks that arise from the activities of the bank, while all banks should have policies and procedures that address their significant activities and risks.

Measurement, Monitoring and Control: Effective risk monitoring requires banks to identify and measure all material risk exposures. Consequently, risk monitoring activities must be supported by information systems that provide senior managers and directors with timely and accurate reports on the financial condition, operating performance and risk exposure of the bank on consolidated basis.

Internal control: The banks internal control structure is critical to the safe and sound functioning of the bank. Establishing and maintaining an effective system of control, including the enforcement of official lines of authority and the appropriate separation of duties is one of managements more important responsibilities. When properly structured, a system of internal controls promotes effective operations and reliable financial and regularly reporting, safeguards assets and helps to ensure compliance with relevant laws, regulations and institutional policies.

Risk manager: At the organizational level, overall risk management should be assigned to an independent risk manager that preferably reports directly to the board risk management committee. The risk manager must be sufficiently independent of the business lines in order to ensure an adequate separation of duties and the avoidance of conflicts of interest. The risk manager takes full responsibility for evaluating the overall risks faced by the bank and determining the level of risks that shall be in the best interest of the bank.

Contingency Planning: Contingency planning is an essential component of effective risk management. The process starts with the assumption that unexpected event can occur at any time and as banks develop their various risk management systems, they are expected to give due consideration to the occurrence of such an unexpected event.

2.1.4 Risk mitigation options

According to Melissa (2013), risk mitigation can be achieved through any of the following risk mitigation options:

2.1.4.1

Risk avoidance is the opposite of risk acceptance. It is the action that avoids any exposure to the risk whatsoever. Risk avoidance is usually the most expensive of all risk mitigation options. An extreme way of managing risk is to avoid it altogether. This can be done by not undertaking the activity that entails risk. For example, a bank may decide not to lend to a particular industry because the risk involved exceeds its risk bearing capacity. This should be used as an exception, as avoiding risks means losing out on the potential gains that accepting (retaining) the risk may have allowed. In other words, not entering business to avoid the risk of loss also avoids the possibility of earning profits.

2.1.4.2 Risk limitation

Risk limitation is the most common risk management strategy used by business. This strategy limits a company's exposure by taking some action. It is a strategy employing a bit of risk acceptance along with a bit of risk avoidance or an average of both. It refers to the attempt to reduce either the possibility (probability/frequency) of a loss or the quantum (magnitude/impact) of loss. This is done by making adjustments in the day to day business activities.

2.1.4.3 Risk transfer

Risk is transferred when the bank is originally exposed to transfer it to another party, which is willing to bear the risk. This may be done in three ways the first is to transfer the asset itself. For example, a bank may like to transfer loan asset along with credit risk to another party, and thereby transfer the risk involved in it. The second way is to transfer the risk without transferring the title of the asset or liability. This may be done by hedging through various derivative instruments like Forwards, Futures, Swaps and options. And the third way is through arranging for a third party to pay for losses if they occur, without transferring the asset itself, for example, insurance.

2.1.4.4 Risk acceptance (Retention)

Risk acceptance does not reduce any effects however it is still considered a strategy. This strategy is a common option when the cost of other risk management options such as avoidance or limitation may outweigh the cost of the risk itself.

A company that does not want to spend a lot of money on avoiding risks that do not have a high possibility of occurring will use the risk acceptance strategy.

2.1.5 Related Theories

2.1.5.1 Risk management Theory

Risk management model consists of risk identification, risk assessment and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities (Wenk, 2005). The strategies to manage risk typically include transferring the risk to another party, avoiding the risk, reducing the negative effect or probability of the risk, or even accepting some or all of the potential or actual consequences of a particular risk.

According to Dorfman (2007), ensuring that an organization makes cost effective use of risk management first involves creating an approach built up of well- defined risk management and then embedding them. These risk managements include financial risk management, operational risk management, governance risk management, and strategic risk management.

The state bank of Pakistan (2003), in its risk management guideline for commercial banks has claimed that, the risk management activities takes place at different hierarchical levels. Hence, it has indicated the following hierarchical levels of risk management activities in every financial institution.

Strategic level: at this level risk management functions performed by senior management and BOD. For instance, definition of risks, establishing institutions risk appetite, formulating strategy and policies for managing risks and establish adequate systems and controls to ensure that overall risk remain within acceptable level and the reward compensate for the risk taken.

Macro Level: This level incorporates risk management within a business area or across business lines and all risk related activities performed by middle management or units dedicated to risk reviews fall into this category.

Micro Level: It involves “On-the-line” risk management where risks are actually created. The risk management in those areas is confined to following operational procedures and guidelines set by management.

As detailed in Section 2.1.5, this study is grounded in Risk Management Theory, which conceptualizes risk management as a systematic, strategic process involving risk identification, evaluation, prioritization, and mitigation. It also draws on Enterprise Risk Management (ERM) principles, which advocate for a coordinated, institution-wide approach to managing both financial and non-financial risks. These theoretical foundations align with international frameworks such as ISO 31000 and the Basel Accords, and support the study’s aim of promoting proactive and comprehensive risk practices within Ethiopian commercial banks.

2.1.5.2 Enterprise Risk Management Theory

According to Tseng (2007), Enterprise Risk Management (ERM) is a framework that focuses on adopting a systematic and consistent approach to manage all of the risks confronting an organization.

In conducting ERM, the following are listed as some of the areas or aspects of the organization that a risk manager need to look into namely: the people, intellectual assets, brand values, business expertise and skills, principle source of profit stream and the regulatory environment (Searle, 2008).

The main advantage of ERM over traditional risk management is the management of all risk types together instead of using the older silo approach. By integrating decision making across all risk types, firms can exploit natural hedges, thus avoiding the costs of the duplication of risk management. Firms engaged in ERM should have a better understanding of the aggregated risk of different business activities, providing them with a more objective basis for resource allocation. This will improve return on equity (ROE) and capital efficiency (Meulbroek, 2002).

ERM provides a framework which combines all risk management activities, facilitating the identification of interdependencies between risks. Thus an ERM strategy aims to reduce volatility by preventing aggregation of risk across different sources (Hoyt, R. E., and Liebenberg, 2011). Enterprise risk management (ERM) was developed because the traditional form of risk management did not produce effective results (Lam, 2000). COSO (2004), developed an ERM Integrated framework to help organizations evaluate and improve their ERM.

COSO defines ERM with the following definition: “Enterprise risk management is a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives”. The main objective of ERM is to help management to deal with uncertainties and the associated risks and opportunities in the process of creating value.

2.1.5.3 Contingency planning Theory

According to Hinson and Kowalski (2008), Contingency planning (CP) also known as business continuity planning is a crucial element of risk management.

The fundamental basis of contingency planning (CP) is that, since all risks cannot be totally eliminated in practice, residual risks always remain.

2.1.6 Risk Management process

The banking industry is no doubt a regulated sector as a result of the riskiness of its operation. Consequently, risk management in banks is fast becoming a discipline that every participants and players in the industry need to align with. According to NBE guideline (2010), the risk management processes are:

Risk Identification: Before taking any meaningful action to address our risk, risks must first be identified. Almost every product and service offered by banks has a unique risk profile composed of multiple risks. In order to properly manage risks, an institution must recognize and understand risks that may arise from both existing and new business initiatives.

Risk Measurement: Once risks have been identified, they should be measured in order to determine their impact on the banking institutions profitability and capital. This can be done using various techniques ranging from simple to sophisticated models.

Risk Control: After measuring risk, an institution should establish and communicate risk limits through policies, standards, and procedures that define responsibility and authority. These limits should serve as a means to control exposure to various risks associated with the banking institutions activities.

Risk Monitoring: Institutions should put in place an effective management information system (MIS) to monitor risk levels and facilitate timely review of risk positions and exceptions. Monitoring reports should be frequent, timely, accurate, and informative and should be distributed to appropriate individuals to ensure action, when needed.

2.2 Empirical Literature Review

This section provides a summary of some of the published work on the management of risks by banks. Agyepong (2015), conducted research on credit risk management practices of Agricultural development bank limited. The study employed a qualitative descriptive approach in its research methodology. The Head of Credit of ADB, head office, served as the respondent for the study. The credit portfolio of ADB from the years 2012 to 2014 also served as a key source of data for the study. The findings of the study proved that ADB has a good credit risk management practices which is being reflected in its loan granting, evaluation and monitoring processes. Per the findings of the study, loan applicants are assessed by credit officers based on their capacity, character, capital, conditions and collateral which is popularly referred to as the five's of credit.

The study concludes that to a greater extent ADB Bank Ltd has good credit risk management practices that ensure a considerable level of profitability. The study therefore recommended the need for the training of credit officers on better ways of assessing the creditworthiness of clients in order to reduce the rate of repayment defaults among clients. Further the study recommended the need for management of ADB to come up with a policy that will ensure the disbursement of current loans whiles cutting down drastically the approval of loans which have the potency of becoming doubtful or loss to the bank.

Adarkwa (2011), conducted research on risk management and bank performance a case study of first Atlantic merchant bank Ghana limited (FAMBL) with the aim of evaluating the bank's risk profile as well as assessing its risk management framework to ascertain its soundness and conformity to international best practices. This study also investigates whether efficient risk management translate into enhanced performance of banks. It combines and further develops relevant previous findings from two major areas of research: risk management, enterprise risk management (ERM), and their effect on bank performance. Analytical based approaches were adopted in assessing the risk condition of FAMBL. By applying analytical tools such as ratios, tables and charts, to the bank's 2010 financial statements, and those of years 2009 and 2008 serving as references for comparison. Trends and relationships in the financial statements and other financial data were also established. The study also revealed that FAMBL had a fairly adequate risk management structures to ensure sound management of financial and operational risks. There was an appropriate environment in place for managing risk, in that; the governance structure was solid with clear obligations and lines of authority set out.

Hosna et al. (2009), describe the impact level of credit risk management on profitability in four commercial banks in Sweden. The study is limited to identifying the relationship of credit risk management and profitability of four commercial banks in Sweden. The data is collected from the sample banks annual reports (2000-2008) and capital adequacy and risk management reports (2007-2008). The findings and analysis reveal that credit risk management has effect on profitability in all 4 banks. Among the two credit risk management indicators, NPLR has a significant effect than CAR on profitability (ROE). The analysis on each bank level shows that the impact of credit risk management on profitability is not the same.

Masenene (2015), assessed the effectiveness of operational risk management among Tanzanian financial institutions the case study of selected Banks in Dares Salaam. It was found that operational risks policies, procedures and instruments are there in financial banks though to some extent they are not effectively managed. Also methods used to manage operational risks were not well implemented. Awareness of bankers on principles guiding operational risks was found to be minimal among them. The results revealed that most of the respondents proved that operation risk management in Tanzanian financial institutions were found not well implemented. The study concluded that there were a lot of weaknesses in management of risk including lack of strong

risk management departments, weak rules and principles, unimplemented policies and biasness in the implementation of compensation. The study recommended a need for strong risk control departments, training and availability of insurance that are active in organizations.

2.2.1 Related Empirical Studies in Ethiopia

The following section present related studies conducted by different researchers in Ethiopia. Fekadeselassie (2015), has conducted research on Risk Management Practice of Ethiopian Commercial Banks. The aim of this paper is to analyze the effectiveness of risk management practice of commercial banks operating in Ethiopia. The main conclusions of the papers are: risk managers perceive risk management as critical to their banks performance; the types of risks causing the greatest exposures are credit risk, operational risk, liquidity risk, interest rate risk and foreign exchange risk. There was a reasonable level of success with current risk management practices and, banks are utilizing some of the approaches/techniques traditionally used to manage risks. Overall, the findings suggest that banks operating in Ethiopia are indeed risk-focused.

Some recommendations were made and prominent ; amongst them were that banks should give emphasis on staff training in the area of risk management and they must make risk visible, measurable and manageable and ensure a meaningful risk culture throughout all processes and activities.

Nigussie (2016), assessed determining factors of best Risk Management Practice based on fifteen commercial banks operating in Ethiopia. For this study there are six independent variables: understanding risk and risk management (URM), risk assessment and analysis (RAA), risk identification (RI), risk monitoring (RM), Risk Evaluation (RE), required policy in place (RP) and one dependent variable, RMP. So regression model was applied to analyze the impact of independent variables on dependent variables. From the analysis it was concluded that there were five variables which have positive significance impact on the dependent variable RMP.

Awgchew (2017), the main purpose of this study was to assess the liquidity risk management practices and challenges of private commercial banks in Ethiopia. To deal with the problem, fundamental research questions were formulated whether banks are managed liquidity risk in accordance with Basel principles or not. Moreover, liquidity risk exposures of each banks performance were reviewed during this study.

The findings of the study revealed that the liquidity risk management practice of private commercial banks in Ethiopia is somewhat partially fulfilled comparing against best principles of Basel. There are no standardized and centralized liquidity risk management practices which can able to address the basic principles for managing liquidity risk. The main challenges most of the private banks faced as per this study are NBE bill purchase policy imposed on private commercial banks, financial innovation and global market development and the increasing real time nature of payment and settlement system.

Moreover, all private commercial banks liquidity position has been deteriorated from year to year and banks should work hard to overcome the problem. Finally, the study recommended that banks should improve or upgrade their liquidity risk management system in crucial elements of liquidity risk management and they should also diversify their source of fund and actively monitor their intraday liquidity position in order to meet their business objectives.

Aragaw (2016), assessed the level of credit risk management practice in commercial bank of Ethiopia. The independent variables were establishment of an appropriate credit risk environment, operating under sound credit granting process, maintaining an appropriate credit administration, measurement and monitoring process and ensuring adequate control over credit risk and the dependent variable was credit risk management practice. The overall finding shows that the credit risk management practice is highly and positively related with establishment of appropriate credit risk environment.

As established in the empirical literature (Section 2.2.1), most existing studies and regulatory frameworks in Ethiopia concentrate on financial risks such as credit, liquidity, and market risks, while giving insufficient attention to non-financial risks like strategic and reputational risks. This study addresses this gap by assessing the extent to which Ethiopian commercial banks acknowledge, evaluate, and manage these underexplored risk categories. It aims to provide a more integrated view of risk governance and offer actionable insights that align with international standards, thereby strengthening long-term institutional resilience.

2.2.1.1 Summary and Knowledge gap

While prior studies have contributed to understanding financial risk management in Ethiopian commercial banks, they have largely overlooked non-financial risks such as strategic and reputational risks. These gaps in both literature and practice leave banks vulnerable to long-term

performance challenges. This study addresses the gap by examining how these overlooked risks are managed and integrated into the overall risk management framework of commercial banks in Ethiopia. Furthermore, the study is grounded in Risk Management Theory, which emphasizes the systematic process of identifying, evaluating, and mitigating risks to enhance organizational performance. It also applies Enterprise Risk Management (ERM) principles, advocating for a unified, institution-wide approach to managing both financial and non-financial risks. These frameworks provide the foundation for assessing current practices and recommending improvements aligned with international standards such as ISO 31000 and the Basel Accords. In conclusion, this study contributes to filling a critical research and practical gap in the Ethiopian banking sector by bringing strategic and reputational risks into focus. It advocates for a more integrated and forward-looking approach to risk management, one that goes beyond financial metrics and embraces the full spectrum of risks affecting banks today. By aligning local practices with global frameworks, the research aims to strengthen the resilience and competitiveness of Ethiopian commercial banks in a rapidly evolving financial environment

2.2.2 Conceptual Framework

This study employs a conceptual framework to present a structured understanding of the interrelationship between various types of risks and the risk management practices adopted by Ethiopian commercial banks. The framework is based on the classification of risks into two major categories: financial risks, including credit risk, market risk, and liquidity risk, and non-financial risks, which comprise operational risk, strategic risk, and reputational risk. These risk categories are selected because they represent the most critical and commonly encountered risks in banking. Their selection is based on their significant impact on the bank's performance, alignment with regulatory standards like Basel accords, and strong support in academic and practical risk management literature.

Figure 1: Risks in the Banking Industry



Source: Chatterjee, 2005

CHAPTER THREE: RESEARCH METHODOLOGY

3. Introduction

This chapter presented an overview of the research method in context to the undertaking that has been pursued for this study while justifying the adopted methods in relation to other potential methods. It defines research method, method of study, target population, sampling and data collection, measures and analysis technique. Moreover, it incorporated an ethical consideration part to meet the business and academic integrity standards.

3.1 Research Approach

Based on its nature, research approaches can be categorized as Qualitative research, Quantitative research and Mixed research. Quantitative research uses figures and statistical techniques to answer testable questions, and on the other hand qualitative research is concerned with the exploration of a phenomenon beyond the numbers and the use of structured communication tools.

Creswell (2009) defined that the mixed-methods approach involves using both qualitative and quantitative research paradigms, due to which, it is possible to use one will offset the weakness of the other. The present study employed both quantitative and qualitative research methods to capture a broad picture of risk management practices prevailing in the commercial banks of Ethiopia. The researcher used a mixed research approach to gain a comprehensive understanding of risk management practices in Ethiopian commercial banks, specifically because the study addresses both quantifiable financial risks (credit, liquidity, and market) and less measurable non-financial risks (strategic, operational, and reputational). Quantitative methods allowed for the systematic measurement and comparison of risk practices across banks using structured questionnaires, while qualitative data provided deeper insights into complex areas like decision-making, perception, and governance—especially where strategic and reputational risks are concerned. Combining both methods ensured a more accurate, reliable, and contextually rich analysis that aligns with the study's broad and multidimensional objectives. This approach makes it possible to have higher numerical credibility together with understanding of the research problem in the given context.

3.2 Research Design

Research design is the plan for collecting, measuring and analyzing data used in the study. According to Kothari (2004), it helps in making a study's goal respond to its objectives in an effective and efficient way.

The research method used in this study is descriptive because the researcher wanted to document and present a snapshot of the risk management systems in the Ethiopian commercial banks in their current state. Descriptive research is concerned with discovering the research problems and also, describing how these various types of risks are related for instance; credit risks, liquidity risks, and market risks as well as the operational risks, strategic risks, and reputational risks that are associated with them. Writing based on Creswell's (2009) recommendations, a descriptive research design is particularly appropriate for researching existing conditions in view of which it was fitting for this study.

3.3 Population and Sample Size

In research methods, a population refers to the entire group of individuals or objects that share common characteristics and are of interest to the researcher. The population is the complete aggregation of all items from which samples can be drawn (Yahiya, 2011). The populations of this study are Commercial Banks in Ethiopia registered by National Bank of Ethiopia (NBE). Currently, as per NBE (2022/23) annual report, the number of banks operating in the country is 29. To meet the desired objective of this study and to make generalizations from sample to population, the researcher had purposely used as a sample 19 commercial banks at the head office level. The 19 commercial banks were selected based on their experience, reputation, strategic role, and operational involvement in risk management practices. The next step is defining target population. The targeted populations of this study are risk department, strategic department, marketing department, credit department and customer experience department. Other departments were not included because the study specifically focuses on non-financial risks that are relevant to these departments. These selected departments have direct involvement and expertise in managing such risks, making them the most appropriate sources of data. Including unrelated departments would dilute the relevance and accuracy of the findings.

The targeted departments for this research were Risk department, strategic department, credit department, customer experience department and marketing department employees. A structured questioner was distributed to the respondents. Abay Bank fourteen (14) employees, Ahadu Bank thirteen (13) employees, Amhara Bank sixteen (16) employees, Awash Bank eighteen (18) employees, Bank of Abyssinia seventeen (17) employees, Bunna Bank thirteen (13) employees, Commercial Bank of Ethiopia(CBE) nineteen (19) employees, Cooperative Bank of Oromia(COOP) fourteen (14) employees, Dashen Bank fourteen (14) employees, Enat Bank twelve (12) employees, Hibret Bank fourteen (14) employees, Hijra Bank twelve (12) employees, Nib International Bank fifteen (15) employees, Oromia Bank thirteen (13) employees, Tsedey Bank fourteen (14) employees, Tsehay Bank twelve employees, Wegagen Bank fourteen (14) employees, Zemen Bank fourteen (14) employees, ZamZam Bank twelve (12) employees.

3.4 Sampling Technique

Sampling techniques are generally classified into probability sampling and non-probability sampling (Adams, 2007). This study employed a purposive sampling technique, a non-probability sampling method, where participants were selected based on their expertise and direct involvement in risk management practices.

3.5 Types of Data and Instruments of Data Collection

According to Khan et al. (2007), there are two types of data: qualitative and quantitative. Cooper (2014), argues that qualitative research draws data from a variety of sources, for instance People (individuals or groups), organizations or institutions, texts (published, including virtual ones), settings and environments (visual/sensory and virtual material), objects, artifacts, media products (textual/visual/sensory and virtual material). This research was mixed and used primary data. The primary data was collected by distributing self-administered questionnaires for the respondents.

3.6 Measurement of Variables

Measurement of Independent variables

In this study, the independent variables were categorized into four types of risks: First, there is the operational risk which is followed by the strategic risk, reputational risk as well as the

financial risk. All of these risk types were assessed by well-tested and normative instruments which would allow for the validity, reliability and across-study comparability in operationalizing the specific characteristics of each risk factor.

Operational Risk: This risk relates to losses that occur due to insufficient or unsuccessful internal controls, mechanisms, employees, or conditions. The operational risk measurement tool will be obtained by using the Basel Committee on Banking Supervision (2004), an internationally accepted reference framework in the banking industry. The instrument that was used in this study was comprised of seven questions answered on a 5-Likert scale of 1 = Strongly Disagree to 5 = Strongly Agree.

Strategic Risk: Strategic risk stems from flawed business decisions, incorrect management of strategies or a firm's inability to respond to conditions in its operating environment. The measurement tool for strategic risk was adapted from Frigo and Anderson (2011) and was comprised of twelve items that was again measured on a Likert scale of 1 (Strongly Disagree) to 5 (Strongly Agree).

Reputational Risk: This risk is about loss that might be incurred mainly through negative perception concerning the bank's image, unethical action, or failure to deliver on stakeholder expectations. The assessment of reputational risk was measured with instrument developed by Kirkpatrick (2009) and the scale was include ten items on a five-graded Likert scale with range from 1 'Strongly disagree' to 5 'Strongly agree'.

Financial Risk: The following are risks that are related to the financial status of a bank: Credit risk entails exposure to risks that may harm a bank's financial standing due to credit exposure, liquidity risk which pertains to the exposure to risks due to unfavorable market developments for a banks liabilities, and finally market risk that exposes a bank to unfavorable shifts in prices and rates maladies. Again, the measurement tool for financial risk which was developed from Greuning & Bratanovic (2009), was comprised of 25(divided in to CRM, MRM, LRM) items and respondents answered in a Likert scale 1 = Strongly Disagree to 5 = Strongly Agree.

These instruments was selected with considerations of past studies indicating reliability and validity of each of the instruments to give data that would be useful in making recommendations relevant to the risk management practices of Ethiopian commercial banks.

Measurement of dependent variable

The dependent variable in this study is risk management practices in Ethiopian commercial banks because it represents the outcome being influenced by the bank's exposure to various types of risks. The study aims to assess how the presence of these risks shape or determine the way banks implement, adapt, or improve their risk management strategies. Since these specific risks are the influencing factors (independent variables, the resulting changes or levels in risk management practices are logically the dependent variable.

In order to measure this variable, the study used a scale that is original, but based on that of Coskun and Yilmaz (2018) whose instrument has been utilized in different banking environment. The chosen instrument was specific, reliable, and flexible enabling the analysis of the ways banks recognize, assess, monitor, and manage different risks.

Reliability and validity are some of the ways in which accuracy can be maintained and discussed below.

3.7 Methods of Data Collection

There are several methods of data collection that can be used depending on the nature of the research study, the type of data needed and the resource available. This study used surveys because it involves collecting data through questioners or interviews. Primary data was collected through distributing questionnaire. Questionnaires were designed to get data on risk management practice of the selected banks. The questionnaires consisted of mostly close ended questions where the respondents have to select an answer from the given choices that was designed. However, to give the respondents the opportunity to answer the question in their own words, some open ended questions was included.

3.8 Method of Data Analysis

Statistical tools play a vital role in data analysis as they help to make sense of complex data sets and provide valuable insight that can inform effective decision making. In this descriptive type of research, the collected data was first coded, cleaned, and organized by using Microsoft Excel to ensure accuracy and consistency. Then the data was analyzed using SPSS version 27. For data presentation, the study used tables, charts and graphs to display the results in clear and accessible format. Descriptive statistics such as frequency, percentage, mean and standard deviation were applied to summarize the data in a well-organized and interpretable manner.

3.9 Validity and Reliability

The validity of research evaluates how well study outputs match the target concept its investigators have in mind. Validity according to Bryman and Bell (2007, p.41) focuses on preserving “the integrity of the conclusions that are generated from a piece of research” (p.41). A pilot test of the survey instrument was conducted in order to establish its clarity and relevance for use in this study. The preliminary sample group received the questionnaire to check if questions were easy to understand and had the appropriate wording and accepted by respondents. The pre-testing procedure enabled researchers to detect and solve problems or vague elements present in the instrument.

The main survey data went through analysis using SPSS (Statistical Package for the Social Sciences) for Windows which serves as a trustworthy quantitative data analysis program. The refined data analysis conducted by SPSS strengthens the research findings which supports the conclusion regarding the high validity demonstrated by the study.

Any research instrument requires two fundamental components beyond validity which is reliability. According to Sekaran (2006) reliability represents the stability and consistency which establishes the quality of measurement while evaluating a concept within a research instrument. A trustworthy instrument produces uniform outcomes whenever it is applied while measuring the genuine opinions of study participants.

The reliability assessment of the questionnaire depended on Cronbach's alpha coefficient. Internal consistency measurement uses Cronbach's alpha statistics which demonstrate the degree of item correlation within a set of related measurements. The reliability measurement exists on a scale between 0 and 1 while improved consistency corresponds to higher values. The established guidelines state that research instruments maintain reliability when their Cronbach's alpha value reaches or exceeds 0.70.

The questionnaire contained reliable measurement scales for all constructs because all Cronbach's alpha values surpassed 0.70 as displayed in Table 3.9. Researchers can replicate these findings due to the reliable measurements which add dependability to research outcomes.

Table 3.9. Reliability test

Variables	Cronbach's Alpha	no of Items
Credit Risk	0.082	10
Liquidity Risk	0.088	8
Marketing Risk	0.097	7
Operational Risk	0.085	7
Reputational Risk	0.094	10
Strategic Risk	0.088	12

Source own design and SPSS output

3.10. Ethical Consideration

Ethical issues for the most part underpin all aspects of research work. This study adhered to the following ethical principles:

Informed Consent: Participants stated clearly the aims and objectives of the study, the aims and objectives of the study as well as participants' right to withdraw from the study at any time.

Confidentiality: In fact, personal information, as well as participants' answers, remained anonymous and exclusive for research purposes.

Anonymity: Data collected in this study was also having the participants' identity removed in order to maintain confidentiality.

Voluntary Participation: Offer for participation was open and there was no force or inducement that may bias the responses of the participants.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION

4. Introduction

This chapter reflects on the results of data collected from respondents related to their opinions on the risk management practices of Ethiopian commercial banks. Questionnaires were distributed to chosen employees in risk-related departments of banks located in Addis Ababa. Responses were grouped and described with the help of frequencies, means, and standard deviations. The findings are shown in tables and backed up by quotations from other academic work. According to Saunders, Lewis, and Thornhill (2016), analyzing data correctly helps ensure that the results are significant with respect to the study's aims.

4.1. Response Rate

A sample of 19 operating commercial banks based in Ethiopia was included in the research. Two hundred and seventy five questionnaires reached all their targets, and every participant responded leading to a 100% response rate. The study achieved a response rate surpassing the recommended minimum according to Mugenda (2003) who indicated that social science research needs at least 50% response rate for valid statistical analysis. Complete questionnaire returns increased the reliability and validity levels of the study research outcomes.

According to (Demis, 2016) interpret the mean result used the following standard:

- Mean score from 0.01 to 1 is (Strongly Disagree)
- From 1.01 to 2 is (Disagree)
- From 2.01 to 3 is (Neutral)
- From 3.01 to 4.00 is (Agree)
- Mean score from 4.01 to 5.00 is (Strongly Agree)

4.2. The General Background of Respondents

In the following table, the demographic information of respondents is presented. These include Gender, age, field of study, level of education and work experience. To get information on these issues the respondents were asked a semi-structured question and their responses are presented and analyzed as follows.

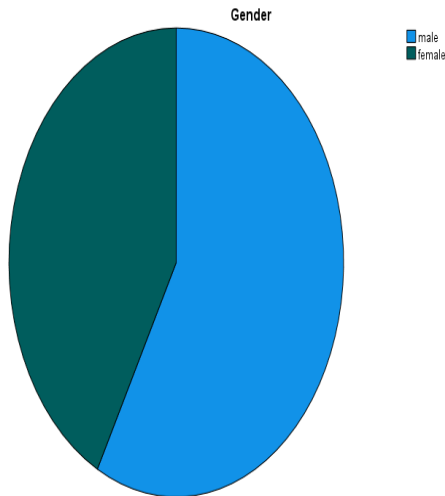
Table 0. Demographical Characteristics of Respondents

Demographic		Frequency	Valid percent
Gender	Male	159	57.8
	Female	116	42.2
	Total	275	100
Age	20-35	107	38.9
	36-50	121	44.0
	Above 50	47	17.1
	Total	275	100
Level of Education	Diploma	8	2.9
	BA/BSc	144	52.4
	M.Sc./MA	105	38.2
	Ph.D.	12	4.4
	Others	6	2.2
	Total	275	100
field of study	Accounting	95	34.5
	Marketing	38	13.8
	Management	74	26.9
	Business administration	23	8.4
	Economics	25	9.1
	Others	20	7.3
	Total	275	100
Work Experience in the bank	1-5years	57	20.7
	6-10years	117	42.5
	Above 10years	101	36.7
	Total	275	100

Source own – survey

Figure 2. Gender representation chart

Source own – survey

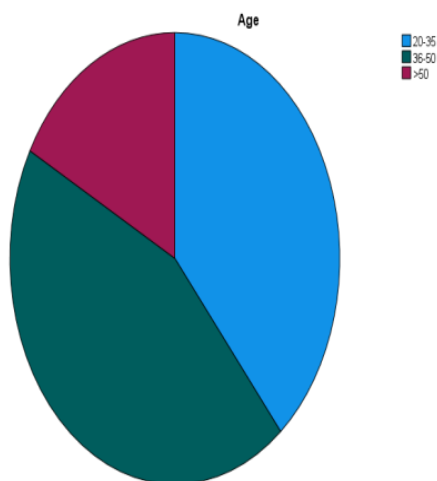


This pie chart demonstrates how male and female participants divided between one another during the study. The chart represents how male respondents outnumber female respondents who participated in the survey. The visual data indicates male participants are form 60–65% of the research while female participants make up 35–40% of the sample. The majority of the staff members in core departments like Risk Management work under

male leadership. Strategic Planning and Credit along with Marketing and Customer Experience also consist mostly of male employees. The unbalanced gender composition might affect how the study results present male interpretations compared to female interpretations of risk management practices because gender perspectives vary. Further research should establish gender parity in its participant base and investigate gender-based distinctions regarding risk management views and conduct.

Figure 3. Age representation chart

Source own – survey



The attached pie chart named "Age" presents how the participants across different age groups contributed to the research study. The research study divides its participant population into three age groups that appear as light blue for 20–35-year-olds and dark teal for 36–50-year-olds while the older segment over 50 years stands as dark red/maroon. Most participants who work in risk-related functions

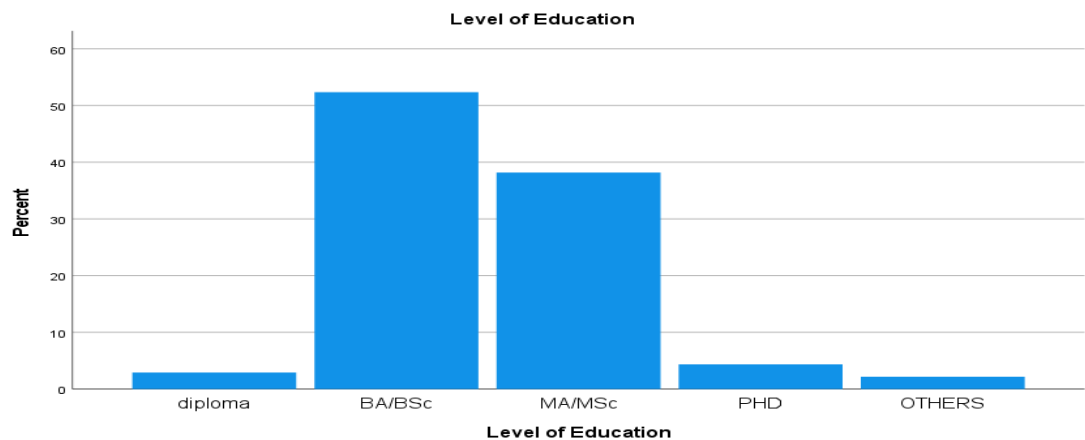
come from the 36–50 age brackets according to a visual assessment of the data which likely

reflects their broad professional experience. The population between 20 to 35 years old showcases substantial participation in the sample thus involving early career professionals who bring contemporary knowledge and innovative ideas to risk management tasks. The smallest

The analysis included gathering data on participants’ gender, age, level of education, years of experience, and what department they belonged to. Different units were included in the research, making sure the study reflected a wide range of risk management methods. The way people are spread across different ages and cultures supports the fittingness of the survey responses. According to Sekaran and Bougie (2016), increasing the diversity of respondents helps make quantitative studies more accurate and informative.

17.1 percentage belongs to workers over 50 years old since older staff apparently faces limited participation probably due to retirement rates and fewer workers in senior administration roles. The age composition shows Ethiopian commercial banks maintain an ideal mixture of vigorous personnel and experienced personnel in their risk management functions. Decision-makers and risk evaluators in the 36–50 age range probably take the primary roles because senior professionals dominate this cohort yet emerging staff members show their current adoption of advanced risk management methods. Included participants aged between 36 and 50 represented most of the samples which indicate a need for future leadership succession planning throughout risk-dependent areas because older colleagues were underrepresented. The research could be expanded in future by investigating how age affects how people view risks or which preventive measures they choose to implement.

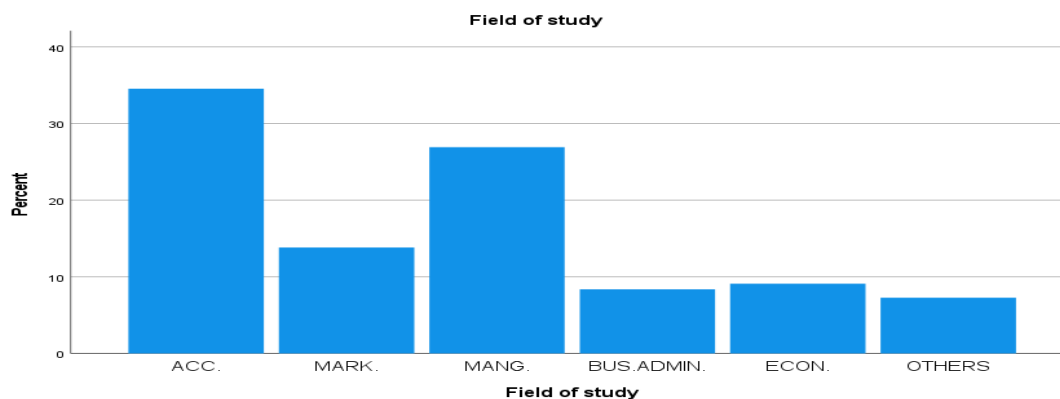
Figure 4: level of education representation graph



Source own survey

The above bar chart named "Level of Education" shows the educational background of participants who took part in the research. A majority of 50.3% among participants possess BA/BSc undergraduate degrees according to results collected from Ethiopian commercial bank risk-related departments. Data shows MA/MSc degree holders form 35–40% of the total sample while remaining participants primarily obtain a BA/BSc degree representing more than 50%. The data shows that most employees working in Ethiopian commercial bank risk-related departments earned either a diploma or PhD or other types of educational degrees and account for less than 10% of the total respondents. Career positions in risk management primarily employ workers whose education exceeds the diploma level as lower-qualified staff focus on other banking functions. Few PhD holders demonstrate the minimal need for advanced academic experience in typical banking work. The workforce analysis demonstrates that risk management organizations maintain high levels of academic education which strengthens banking sectors dedication to formal education for both undergraduate and postgraduate degree holders when addressing complex financial risks.

Figure5: field of study representation graph

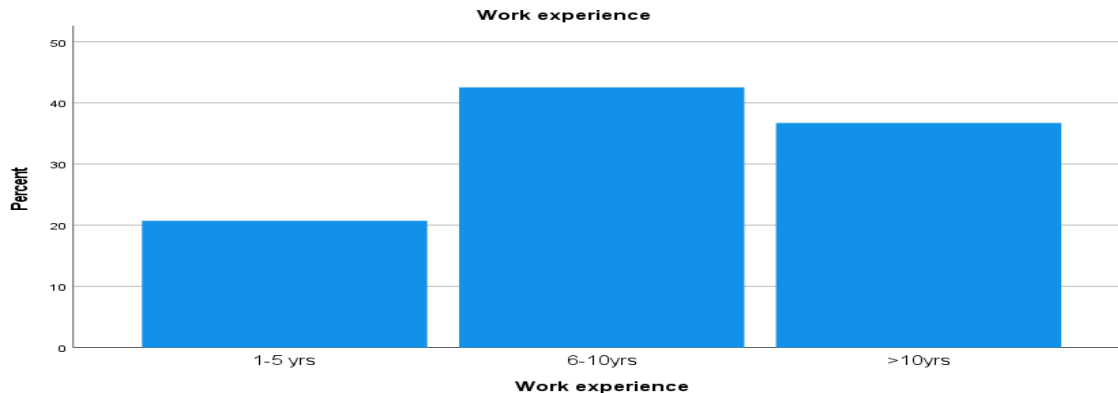


Source own – survey

This bar chart demonstrates the study field distribution among respondents where Accounting (ACC.) stands as the leading field at 35% while Management (MANG.) follows closely at 27%. Marketing represents 14% of the total while Business Administration and Economics along with other studies collectively correspond to 8–10% of the data. The data shows a substantial preference for Accounting and Management among survey participants because of their apparent popularity together with high market demand and wider availability within the examined area.

Other academic areas have fewer students enrolled because students do not show significant interest or the available opportunities are scarce.

Figure 6: work experience representation graph



Source own – survey

The bar chart shows the distribution of work experience among respondents, indicating that the largest group (around 43%) has 6–10 years of experience, followed by those with over 10 years at approximately 36%. The smallest group, with about 21%, consists of individuals with 1–5 years of experience. This suggests that the majority of respondents are mid- to senior-level professionals, reflecting a workforce rich in experience. However, the relatively lower percentage of early-career individuals may point to a potential gap in the influx of new talent or a less youthful workforce overall.

4.3. Managing Credit Risk

Ten questions have been included in the study questionnaire about managing credit risk. Table 4.3 summarizes the results of the responses.

Table 4.3. Descriptive Statistics of Managing Credit Risk

No	Item		Frequency	%	Mean	SD
1.	The Bank board of Directors have adequate Knowledge on credit risk management Area;	Neutral	78	28.4	3.9818	0.74213
		Agree	124	45.1		
		strongly Agree	73	26.5		
		Total	275	100		
2.	Before deciding to approve a loan, a bank assesses the borrower's financial standing and credit worthiness as well as the value and legal security of its credit protection	Neutral	55	20	4.1855	0.74369
		Agree	114	41.5		
		strongly Agree	106	38.5		
		Total	275	100		
3.	Senior Management Ensure that there is a periodic independent internal or external assessment of the bank's credit risk management functions	Neutral	61	22.2	4.1200	0.74246
		Agree	120	43.6		
		strongly Agree	94	34.2		
		Total	275	100		
4.	The credit risk strategy Approved by the Board of Directors are effectively transformed and communicated within the bank	Neutral	74	26.6	4.0764	0.78162
		Agree	106	38.5		
		strongly Agree	95	34.5		
		Total	275	100		
5.	The bank has an effective risk management framework policies and Procedures in place for managing credit risk	Neutral	78	28.4	4.0436	0.78181
		Agree	107	38.9		
		strongly Agree	90	32.7		
		Total	275	100		
6.	The bank has well-structured a credit risk rating framework across all type of credit activities	Neutral	70	25.5	4.0800	0.76473
		Agree	113	41.1		
		strongly Agree	92	33.5		
		Total	275	1000		
7.	The Bank has Effective internal control system to ensure the implementation of policies, procedures and limits its credit function	Strongly Disagree	2	0.7	4.2436	0.76577
		Disagree	2	0.7		
		Neutral	37	13.5		
		Agree	120	43.6		
		strongly	114	41.5		

		Agree				
		Total	275	100		
8.	The Bank Management information system /MIS/ and analytical techniques to Measure the credit Risk inherent in all on and off balance sheet Activities	Disagree	2	0.7	4.0582	0.77145
		Neutral	68	24.7		
		Agree	117	42.5		
		strongly Agree	88	32.0		
		Total	275	100		
9.	Management Information System /MIS/ Provide Quality & detail information Timely	Disagree	3	1.1	4.0582	0.78086
		Neutral	67	24.4		
		Agree	116	42.2		
		strongly Agree	89	32.4		
		Total	275	100		
10.	The bank regularly prepares periodic report to the Board of Directors and senior Managements about credit risk Exposure of the bank	Disagree	2	0.7	3.9636	0.79146
		Neutral	85	30.9		
		Agree	109	39.6		
		strongly Agree	79	28.7		
		Total	275	100		
Source-own survey		Overall Scale Values			4.08109	0.766618

Per Table 4.3 the mean scores for all statement items fall between 3.9636 and 4.2436. A total of 4.2436 respondents selected the seventh item as their most significant point although it carried a standard deviation of 0.76577. This result indicated 85.1% acceptance. Survey participants strongly agree that the bank successfully established internal controls which maintain policy implementation while protecting procedural guidelines and credit restrictions. A system like this shows great importance in strengthening the bank's comprehensive credit risk management body. The elevated mean score indicates respondent confidence about the bank's credit function performance through responsible adherence to established guidelines as well as limits. The survey results support the perception of strong internal controls because the low standard deviation demonstrates that most participants agree with internal control policies which promote responsible lending activities and minimize potential credit risks.

The tenth statement received the least average score of 3.9636 points or 68.3% while demonstrating a standard deviation of 0.79146. Even though the rating is the lowest it demonstrates that most respondents believe the bank prepares regular credit risk exposure reports

for board directors and senior management. The reporting system provides essential credit risk profile information to top-level management through its necessary insights. The board achieves better decision-making through access to this information because it enables decisions about risk appetite and capital distribution and overall credit risk strategies. Detailed reports distributed about credit risk exposure help senior management both track bank exposures and spot upcoming threats and create preventive loss reduction actions. The system helps senior management make tactical decisions about loans together with provisions of benefits and overall risk reduction strategic plans. The positive mean score demonstrates satisfactory reporting yet indicates that both quality and frequency of reporting might benefit from additional enhancement. An improvement in reporting systems with proper gap elimination would strongly enhance credit risk information transparency for stakeholders.

The study shows borrowers rate the bank's financial assessment of their standing and creditworthiness at 80.0% (4.1855 means score) with a 0.74369 standard deviation. The banks perform detailed assessments of borrowers through which they evaluate financial health alongside creditworthiness together with the effectiveness of credit protection instruments. The evaluations prove banks rely on established credit-granting guidelines to properly understand borrowers before loan decisions. The high level of agreement demonstrates clients trust the bank's thorough credit evaluation methods that help decrease credit exposure. The positive way customers view the bank's scrutiny of loan requests implies commitment to ethical lending practices that builds solid credit portfolios while fortifying overall risk management systems.

Survey participants assessed the board of directors' knowledge capabilities regarding credit risk management strategies. The majority of respondents scored 3.9818 (71.6%) corresponding to a standard deviation of 0.74213. Research findings show that most board members demonstrate sufficient understanding about credit risk matters. The knowledge level of board members remains essential for risk understanding because it enables them to select effective credit risk strategies while monitoring credit policies within the bank. The data shows that the board maintains good posture to effectively monitor its oversight tasks and support sound credit risk operational guidelines.

Across all items the average mean score reached 4.08109 with results higher than the midpoint value of 3. The credit risk management practices of Ethiopian commercial banks demonstrate

significant strength according to the data collected from bank employees. All key areas such as internal controls and credit assessment and risk reporting and governance receive positive evaluations from participants according to the study findings. Most findings from this study show positive outcomes but the data reveals continuous improvement areas that focus on better reporting systems and consecutive training sessions for board members to handle progressing credit risk management situations.

A mean score of 4.0811 reflects that Ethiopian commercial banks are practicing effective credit risk management. This agrees with Hosna et al. (2009), who believe that proper credit risk management is crucial for banks to remain profitable and sustainable. As noted by Santomero (1997), when policies are well-organized, there is a decrease in default risk and better asset quality. According to Greuning and Bratanovic (2009), using standard policies and checks for analyzing credit is a necessary part of risk management. Furthermore, Bessis highlighted in 2010 that the majority of bank failures were due to bad credit choices, which points to the need for strict credit evaluation and supervision in banking.

4.4. Managing Liquidity Risk

The questionnaire has contained eight questions in order to assess the liquidity risk management practices. The following table 4.4 summarizes the responses by percentage, mean and standard deviation.

Table 4.4.Descriptive Statistics of Managing Liquidity Risk

No	Item		Freq uenc y	%	Mean	SD
1.	The Bank board of Director have adequate Knowledge on Liquidity risk management Area	Neutral	63	22.9	4.1236	0.75406
		Agree	115	41.8		
		strongly Agree	97	35.3		
		Total	275	100		
2.	There is a proper set of rules and guidelines, for managing liquidity risk, available in the bank	Neutral	56	20.4	4.1673	0.74065
		Agree	117	42.5		
		strongly Agree	102	37.1		
		Total	275	100		
3.	The liquidity risk strategy Approved by the Board of	Neutral	68	24.7	4.0618	0.74469

	Directors are effectively transformed and communicated within the bank	Agree	122	44.4		
		strongly Agree	85	30.9		
		Total	275	100		
4.	The bank has sound risk management policies and Procedures in place for managing liquidity risk	Neutral	54	19.6	4.2000	0.74481
		Agree	115	40.7		
		strongly Agree	109	39.6		
		Total	275	100		
5.	The Bank have adequate Management information system/MIS/ for measuring and monitoring the liquidity Risk	Neutral	70	25.5	4.0255	0.73202
		Agree	128	46.5		
		strongly Agree	77	28.0		
		Total	275	100		
6.	The bank has contingency plans for handling unexpected liquidity problem	Neutral	74	26.9	4.0364	0.75850
		Agree	117	42.5		
		strongly Agree	84	30.5		
		Total	275	100		
7.	There is an effective controlling system to ensure the implementation of policies, Procedures and limits.	Disagree	1	0.4	4.2327	0.73769
		Neutral	47	17.1		
		Agree	114	41.5		
		strongly Agree	113	41.1		
		Total	275	100		
8.	The bank regularly prepares periodic report to the Board of Directors and senior Managements about Liquidity Risk Exposure of the bank	Disagree	1	0.4	4.0618	0.75925
		Neutral	68	24.7		
		Agree	119	43.3		
		strongly Agree	87	31.6		
		Total	275	100		
Source-own survey			Overall Scale Values		4.1136	0.7465

The mean ratings recorded in Table 4.4 span between 4.0255 and 4.2327. The seventh item achieved 4.2327 as its mean score (equivalent to 82.6%) accompanied by a standard deviation of 0.73769. The results indicate that study participants express high agreement regarding the presence of a sound control system that enforces established policies and procedures. Liquidity

risk management frameworks receive strong oversight from the robust governance structures banks have implemented for effective enforcement. The established regulatory mechanisms assist financial institutions to keep up their liquidity assets and prevent upcoming liquidity issues from worsening.

The fifth variable demonstrated the least agreement with an average score of 4.0255 corresponding to 74.5% and a variance at 0.73202. The survey participants demonstrate substantial agreement but exhibit hesitation about the bank's Management Information System (MIS) ability to assess and regulate liquidity risk efficiently. The Management Information System establishes acceptable capabilities to meet key requirements in liquidity risk management by handling data collection and analysis as well as reporting and decision-making processes. The system's level of assurance is moderate because it enables the bank to use accurate information supplied by the system for effective response and accurate risk evaluation.

Staff indicated through their responses that the bank possesses adequate contingency plans to confront unexpected liquidity problems with an average score of 4.0364 at 73%. The standard deviation stood at 0.75850. Study participants believe the bank maintains adequate readiness to deal with unexpected liquidity crises. People believe the bank maintains effective capabilities for confronting unexpected situations because of this factor. The bank's well-designed contingency plans are considered appropriate by respondents demonstrating that the institution maintains stability when facing dangerous liquidity problems.

The bank prepares periodic reports for the board and senior management on a consistent basis as judged by the respondents who scored an average of 4.0618 (84.6%) with standard deviation 0.75925. The institution depends on these reports to assess its financial liquidity and conduct its strategic decision-making process. Reporting liquidity situations with accuracy and promptness allows an institution to achieve transparency and enables proactive risk management activities.

The score averaging across every Likert-scale item shows 4.1136 which demonstrate that the participating respondents believe banks maintain effective liquidity risk management frameworks. Respective parties believe that the risk management framework functions well as an extensive system which defends bank interests from potential liquidity threats in a proactive way.

A sound liquidity risk management approach requires continuous updates for MIS systems and internal controls together with comprehensive contingency planning according to the results.

According to respondents, they make regular use of liquidity policies and stress tests, reaching an average score of 4.053. Bessis (2010) agrees that having cash on hand acts as a backup during periods of financial difficulty. According to Greuning and Bratanovic (2009), managing liquidity risk is necessary to meet obligations and avoid insolvency. Gup and Kolari (2005) also see liquidity risk as an indicator of a bank's capacity to function during rapid changes in the financial environment. The Basel Committee (2008) added that a strong liquidity risk management system should include reserves and plans for emergency funding.

4.5. Managing Marketing Risk

The questionnaire has contained seven items in order to assess the market risk management practices. The following table 4. 5 show the percentage, mean and standard deviation results of all responses.

Table 4.5 Descriptive Statistics of Managing Marketing Risk

No	Item		Frequency	%	Mean	SD
1.	The board have adequate Knowledge on Marketing risk management Area	Neutral	84	30.5	3.9964	0.78069
		Agree	108	39.5		
		strongly Agree	83	30.2		
		Total	275	100		
2.	There is a proper set of rules and guidelines, for managing Marketing risk, available in the bank	Neutral	82	29.8	3.9818	0.76155
		Agree	116	42.2		
		strongly Agree	77	28		
		Total	275	100		
3.	The market risk strategy approved by the Board of Directors are effectively transformed and communicated within the bank	Disagree	4	1.5	4.1345	0.78773
		Neutral	57	20.7		
		Agree	112	40.7		
		strongly Agree	102	37.1		
		Total	275	100		
4.	The bank has an effective risk management policies and Procedures in place for managing Market risk	Disagree	1	0.4	3.9709	0.74913
		Neutral	78	28.4		
		Agree	124	45.1		
		strongly Agree	72	26.2		
		Total	275	100		
5.	The bank's overall market risk exposure is	Disagree	5	1.8	3.970	0.78714

	maintained at prudent levels and consistent with the available capital	Neutral	74	26.9	9	
		Agree	120	43.6		
		strongly Agree	76	27.6		
		Total	275	100		
6.	The bank adopts multiple risk measurement methodologies to capture market risk in various business activities	Disagree	3	1.1	4.138 2	0.77070
		Neutral	56	204		
		Agree	116	42.2		
		strongly Agree	100	36.4		
		Total	275	100		
7.	The bank regularly prepares periodic report to the Board of Directors and senior Managements about market risk Exposure of the bank	Neutral	70	25.5	4.050 9	0.74796
		Agree	121	44		
		strongly Agree	84	30.5		
		Total	275	100		
Source-own survey		Overall Scale Values			4.034 8	0.76927

Analysis of Table 4.5 indicates that participants rated surveyed questions from 3.9709 to 4.1382 on average. The sixth option receives the most significant mean response of 4.1382 rating (about 74.5%) while showing a standard deviation of 0.77070. The obtained scores reveal that bank stakeholders recognize the implementation of multiple risk measurement methodologies supporting market risk detection throughout different business operations. Multiple quantitative approaches together with several statistical methods and risk evaluation instruments make up a complete system for analysis. Implementing diverse techniques enables the bank to detect and measure and minimize potential market risks which leads to stronger market conditions resilience.

The fourth and fifth assessment items about market risk management received the least average score of 3.9709. The individual examination of these items generates more detailed information. Survey participants generally found that the bank has formulated standard policies and procedures to control market risks through assessment procedures. The close proximity of the score to 4 indicates staff members have both positive feedback and uncertainties about the current policy framework. Some components of market risk policy need improvement in order to create a stronger reactive market risk management framework.

The results indicate that market risk management practices are considered satisfactory at the bank but there exist potential areas for improvement to enhance alignment with capital structure.

The relatively higher standard deviation of 0.78714—though within an acceptable range—signals a broader variation in respondents' opinions. Several bank employees along with stakeholders express confidence in market risk management practices but other stakeholders report different levels of satisfaction regarding these risk management procedures.

The assessment of the bank's market risk management approaches demonstrates positive views because the average mean score across all survey questions amounts to 4.0348. The bank receives positive reviews from most respondents about its effective methods to identify and manage market risk along with its sound measures for assessment and risk mitigation. The positive average mean indicates the bank demonstrates its determination to keep strong procedures that enable effective market risk management throughout its operations. The market risk management framework of the bank has demonstrated satisfactory performance but it can reach peak robustness through ongoing efforts to improve policy clarity together with capital alignment mechanics.

The evaluation proves that banks are aware of changes in interest rates and deal with foreign exchange risks. Saunders and Cornett (2006) state that movements in interest rates and exchange rates lead to market risk, which may influence bank earnings. Examining the market risk of a bank is best achieved through VaR and scenario analysis, according to Bessis (2010). Therefore, Ethiopian bank practices are relatively similar to those used in other parts of the world. As Jorion states, allowing for the use of VaR models in decisions can help when markets are more volatile.

4.6. Managing Operational Risk

The questionnaire has contained seven items in order to assess the operational risk management practices. The following table 4.6 shows the percentage, mean and standard deviation of responses.

Table 4.6. Descriptive Statistics of Managing Operational Risk

No	Item		Frequ ency	%	Mean	SD
1.	There is a proper set of rules and guidelines, for managing operational risk, available in the bank	Neutral	70	25.5	4.0436	0.74353
		Agree	123	44.7		
		strongly Agree	82	29.8		
		Total	275	100		
2.	Board and executive management of the bank recognizes, understands and has defined all categories of operational risk applicable to their institution	Disagree	2	0.7	4.1709	0.76647
		Neutral	55	20		
		Agree	112	40.7		
		strongly Agree	106	38.5		
		Total	275	100		
3.	Senior management of the bank translate the strategic direction given by the board through operational risk management policy	Disagree	1	0.4	4.1309	0.77197
		Neutral	63	22.9		
		Agree	110	40.0		
		strongly Agree	101	36.7		
		Total	275	100		
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	Disagree	4	1.5	3.9455	0.77408
		Neutral	78	28.4		
		Agree	122	44.4		
		strongly Agree	71	25.8		
		Total	275	100		
5.	The Bank implemented effective ongoing monitoring system to detect operational losses quickly	Disagree	2	0.7	4.0218	0.77334
		Neutral	73	26.5		
		Agree	117	42.5		
		strongly Agree	83	30.2		
		Total	275	100		
6.	There is an effective controlling system to ensure the implementation of policies. Procedures and limits	Neutral	54	19.6	4.1964	0.74333
		Agree	113	41.1		
		strongly Agree	108	39.3		
		Total	275	100		
7.	The bank regularly prepares periodic report to the Board of Directors and senior Managements about operational risk Exposure of the bank	Disagree	2	0.7	4.0145	0.75923
		Neutral	71	25.8		
		Agree	123	44.7		
		strongly Agree	79	28.7		
		Total	275	100		
Source-own survey		Overall Scale Values			4.0748	0.76171

Table 4.6 indicates that all items mean scores span from 3.9455 to 4.1964. The sixth item received the highest average score which amounted to 4.1964 points that translate to 80.4% (SD=0.74333). A significant percentage of participants demonstrate agreement about the existence of a functional control system which supports operational risk-related policies and procedures and limits. The result indicates that banks have implemented significant structural changes through robust internal control systems to manage operational risk. Strategic operational systems play a vital role because they help maintain activities below approved risk thresholds and follow both regulatory and institutional standards.

The fourth surveyed item received the minimum mean score of 3.9455 from respondents. The bank needs to establish plans for business continuity and contingencies to keep operations running smoothly even through severe disruptions and control resulting financial losses. The survey results demonstrate overall consent but the score below 4 suggests minor doubts about the effectiveness of business plans and contingency measures. The survey results show that banks have put emergency response strategies into place but additional work might be necessary to enhance these strategies. Organizational resilience during crises needs banks to evaluate their existing contingency and business continuity frameworks and enhance both framing and implementation to guarantee stakeholder assurance.

A total of 71.6% of respondents scored the periodic reporting item at 4.0145 (standard deviation 0.75923). Based on the score of 4.0145, it can be seen that there are solid processes in place to guard against process and system-related issues. Bessis (2010) agrees that operational risks can come from disturbances inside the organization and from outside sources. These documents recommend that internal control and information tracking systems should be strong. Greuning and Bratanovic (2009) also show that for operational risk to be handled successfully, banks should have strong IT systems and conduct routine internal audits. In addition, Slywotzky and Drzik (2005) point out that including operational risk in ERM makes it possible to spot upcoming issues and react in advance.

Banks demonstrate consistent practice in reporting operational risks through data streams to the board of directors and senior management teams. The need for such reporting enables high-level decision-makers to stay updated on operational risk developments thus allowing them to make timely strategic decisions about emerging operational threats. Operational risk management

teams that maintain strong communication links with leadership achieve better strategic oversight of risks as well as risk prevention.

The assessed items averaged out to 4.0748 as respondents scored the practices higher than scale midpoint. Survey participants view the banks as operating with robust operational risk management systems. The banks exhibit superior operational risk management capabilities through risk identification and assessment capabilities but need to focus on constant risk framework reviews for increased operational resilience.

4.7. Managing Reputational Risk

The questionnaire has contained ten items in order to assess the reputational risk management practices. The following table 4.7 shows the percentage, mean and standard deviation of responses.

Table 4.7. Descriptive Statistics of Managing Reputational Risk

NO	ITEM		FREQ UNCY	%	MEAN	SD
1.	The bank has frequent communication with customers and also engages their own employees serve as a brand ambassador in the community	Disagree	3	1.1	4.1709	0.76647
		Neutral	52	18.9		
		Agree	115	41.8		
		strongly Agree	105	38.2		
		Total	275	100		
2.	The bank talk about their values and provide declarations of people that helped	Neutral	72	26.2	4.0182	0.73720
		Agree	126	45.8		
		strongly Agree	77	28		
		Total	275	100		
3.	The bank address customer problem on time	Disagree	4	1.5	3.9782	0.77805
		Neutral	74	26.9		
		Agree	121	44.0		
		strongly Agree	76	27.6		
		Total	275	100		
4.	The bank products and services are high in quality, value and meet the customer expectations	Disagree	2	0.7	3.9745	0.78494
		Neutral	82	29.8		
		Agree	112	40.7		
		strongly Agree	79	28.7		
		Total	275	100		
		Disagree	2	0.7		

5.	The bank is environmentally friendly, a supporter of good causes and a positive contributor to the society	Neutral	44	16.0	4.2800	0.72354
		Agree	110	40.0		
		strongly Agree	120	44.0		
		Total	275	100		
6.	The bank is innovative and adaptive	Disagree	3	1.1	3.9127	0.79668
		Neutral	91	33.1		
		Agree	108	39.3		
		strongly Agree	73	26.5		
		Total	275	100		
7.	The bank has strong overall financial performance and growth prospects	Disagree	1	0.4	4.0982	0.76021
		Neutral	64	23.3		
		Agree	117	42.5		
		strongly Agree	93	33.8		
		Total	275	100		
8.	The Bank maintain good workplaces and ensure the employees satisfaction	4.0748	0.76171		3.9636	0.77750
		Disagree	2	0.7		
		Neutral	82	29.8		
		Agree	115	41.8		
		strongly Agree	76	27.6		
		Total	275	100		
9.	The bank participates on Goodwill building activities	Disagree	1	0.4	3.9891	0.78528
		Neutral	83	30.2		
		Agree	109	39.6		
		strongly Agree	82	29.8		
		Total	275	100		
10.	The bank is flexible if a crises happen	Strongly Disagree	9	3.3	3.9309	0.97353
		Disagree	11	4.0		
		Neutral	53	19.3		
		Agree	119	43.3		
		strongly Agree	83	30.2		
		Total	275	100		
Source-own survey		Overall Scale Values			4.0317	0.78834

Table 4.7 contains the item-based mean scores ranging between 3.9127 and 4.2800. The survey participants scored the fifth statement with a mean rate of 4.2800 which equates to 84% along with a standard deviation of 0.72354. The majority of bank customers agree that the institution

demonstrates strong environmental responsibility through its support for meaningful social causes while making positive societal contributions. The institution demonstrates an outstanding dedication to corporate social responsibility (CSR) through these results. People who participated in the study believe the bank demonstrates social responsibility because it examines environmental and social effects of its business activities. Through its prominent CSR reputation the bank projects an improved public image to indicate commitment to financial excellence together with ethical practices sustainability and community engagement.

The sixth statement received the least agreement at 3.9127 from the respondents. The evaluation measured how the bank handles innovation and adaptive measures. Most survey participants found the bank exhibits innovative and adaptive nature yet the lower score indicates room for further development in these fields. A strategic priority emerges for the bank to develop an innovative culture through research investments and better market trend responses and customer preference adaptations. The bank needs to act with proactive change and technological adoption because this competitiveness and client expectation satisfaction along with industry standards demands it.

The mean score for the evaluation of bank financial performance and growth prospects reached 4.0982 (76.3%) with a standard deviation of 0.76021. Research participants indicate their belief that the bank reached solid financial outcomes including stability and consistent growth together with profitability. The bank shows future financial potential through its perceived expansion possibilities as well as its potential to increase market presence and create new products or services.

The received score of mean 4.0317 indicates that steps to protect both brand reputation and trust are taken, even if there are not many dedicated practices in place. Lerbinger (1997) believes that reputation is often the key aspect that can be most damaged during emergencies. According to Basel (2009), reputational risk refers to possible losses caused by having a poor public image. Adarkwa (2011) believes that effective ethical management and good communication are required to maintain a company's reputation. A report from the Reputation Institute (2014) found that companies that openly communicate and work with stakeholders are stronger and enjoy more loyal customers. The mean ratings from participants average to 4.0317 points surpassing the midpoint value. Survey participants understand that the reputation of the bank remains

crucial for successful operations. A bank needs a powerful good reputation to earn trust from customers and sustain its market leadership position while developing loyal client relationships in the financial services industry. Stakeholders demonstrate their preference for the bank's social commitment combined with adaptive capabilities alongside strategic expansion plans as fundamental elements of its public reputation.

4.8. Managing Strategic Risk

The questionnaire has contained twelve items in order to assess the strategic risk management practices. The following table 4.8 shows the percentage, mean and standard deviation of responses.

Table 4.8. Descriptive Statistics of Managing Strategic Risk

No	Item		Freq uenc y	%	Mean	SD
1.	The bank strategic objective is SMART (specific, measurable, achievable, relevance, time bounded)	Strongly Disagree	20	7.3	3.5927	1.20580
		Disagree	30	10.9		
		Neutral	68	24.7		
		Agree	81	29.5		
		strongly Agree	76	27.6		
		Total	275	100		
2.	The bank has the right talent or capabilities to execute on its chosen strategy	Strongly Disagree	18	6.5	3.6364	1.14884
		Disagree	22	8.0		
		Neutral	75	27.3		
		Agree	87	31.6		
		strongly Agree	73	26.5		
		Total	275	100		
3.	The bank environment scanning process (internal & external) is Exhaustive when formulate its strategy	Neutral	65	23.6	4.0691	0.73417
		Agree	126	45.8		
		strongly Agree	84	30.5		
		Total	275	100		
4.	The Bank properly defines its business strategy and objectives by analyzing their strength, weakness, opportunities and treats	Neutral	84	30.5	3.9855	0.77352
		Agree	111	40.4		
		strongly Agree	80	29.1		
		Total	275	100		
5.	The bank key performance indicators are easily quantifiable and efficient to measure results	Strongly Disagree	11	4.0	3.9018	1.00428
		Disagree	10	3.6		
		Neutral	57	20.7		

		Agree	114	41.5		
		strongly Agree	83	30.2		
		Total	275	100		
6.	The bank identifies strategic risks that can drive variability in performance	Neutral	85	30.9	3.9673	0.76584
		Agree	114	41.5		
		strongly Agree	76	27.6		
		Total	275	100		
7.	The bank establishes key risk indicators and tolerance levels for critical risks	Neutral	81	29.5	4.0182	0.78049
		Agree	108	39.5		
		strongly Agree	86	31.3		
		Total	275	100		
8.	The board approves high level approach to strategic risk	Neutral	70	25.5	4.0463	0.74353
		Agree	123	44.7		
		strongly Agree	82	29.8		
		Total	275	100		
9.	The chosen strategy creates unintended consequences or new risks for the bank	Neutral	79	28.7	4.0255	0.77559
		Agree	110	40.0		
		strongly Agree	86	31.3		
		Total	275	100		
10.	The bank strategic implementation process is successive	Strongly Disagree	10	3.6	3.7636	1.03168
		Disagree	15	5.5		
		Neutral	81	29.5		
		Agree	93	33.8		
		strongly Agree	76	27.6		
		Total	275	100		
11.	The bank effectively controls the strategic management process	Strongly disagree	13	4.7	3.6509	1.11474
		Disagree	27	9.8		
		Neutral	76	27.6		
		Agree	86	31.3		
		strongly Agree	73	26.5		
		Total	275	100		
12.	The bank prepares integrated report on a continuous basis for the senior managements	Neutral	75	27.3	4.0545	0.77408
		Agree	110	40.0		
		strongly Agree	90	32.7		
		Total	275	100		
Source-own survey		Overall Scale Values			3.8927	0.90438

The mean score results from Table 4.8 fluctuate between 3.5927 and 4.0691. The respondents selected the third item with the highest mean score of 4.0691 (76.3%) at a standard deviation level of 0.73417. The data shows that bank personnel agree on a very high level that

environmental scanning at both organizational and external levels is a vital part of formulating strategic plans. The bank demonstrates substantial dedication to evaluating both internal organizational capabilities alongside resources and cultural aspects as well as external trends that include industry patterns and competitive forces and regulatory requirements. This complete method of environmental scanning demonstrates the bank's dedication to creating well-informed decisions. Through systematic risk and opportunity assessment the bank achieves improved strategic alignment with present circumstances and emerging uncertainties which results in enhanced strategic performance.

The evaluation of the first item generated a mean score of 3.5927 along with a significant standard deviation of 1.20580. The assessment checked if the bank's strategic goals meet SMART standards consisting of Specificity, Measurement, Achievement, Pertinence and Time-Criticality values. The widespread agreement among respondents toward the statement exists despite their spread in opinions which is indicated by both the low mean value and large standard deviation range. The respondents showed mixed feelings about the bank's objective clarity since 18.2% of them indicated unclear definition or refinement needs based on SMART criteria. Stakeholders show significant disagreement on the meaning of SMART objectives because they have distinct views about the elements needed to create goals that match this description. The bank requires an improvement of its objective-setting procedure so it can establish clear goals which align with organizational understanding.

The study participants evaluated the item about unintended strategic consequences at 4.0255 (71.3%) with a standard deviation of 0.77559. The survey data indicates that respondents possess an understanding about unexpected effects that arise after newly implemented strategies are put in place. Strategic initiatives create unexpected risks to the bank's risk profile so relevant staff members recognize this and perform thorough risk monitoring and responsive management actions. Such understanding should remain a priority because it confirms the importance of extending current strategy assessments into foreseeable as well as actual outcomes.

Strategic risk was given the lowest score (3.8927), suggesting a poorer association between the strategy and the risk frameworks. This is in line with Lam (2016), who supports carrying out scenario analyses and strengthening the strategic alignment and active role of boards. Simons (1999) explains that strategic risks are those that slow down or prevent a business from carrying

out its business plan. It indicates that there is a failure to link current decisions with the amount of risk the organization is willing to take and its long-term targets. Slywotzky and Drzik (2005) point out that when risks are not handled well, it can lead to a drop in a company's value and they urge including risks in the company's strategy development. The score which exceeds the midpoint reveals a moderate level of trust in how the bank handles strategic risk management right now although it lags slightly below the 4.0 mark. Survey participants understand the bank's initiatives to control strategic risk but indicate there is space for making these approaches more effective. Better processes for identifying risks as well as assessing them combined with mitigation steps should receive further enhancement in order to reduce detrimental impacts and help attain strategic goals. New evidence supports proactive strategic risk management and indicates the bank requires continuous assessment of its tactics against evolving risks and surrounding environmental changes.

Discussion in Relation to Other Scholarly Findings

Respondents gave a mean score of 4.0145 to show their overall approval regarding operational risk management practice familiarity within the boards of Ethiopian commercial banks. The research data matches results presented by Firew (2012) who studied operational risk factors to understand their effect on Ethiopian commercial banks' performance by using a mixed-method research structure. Results from Firew's research showed an evident positive relationship where operational risk effects connected to business disruptions and system failures. Operational risk policy and procedure supervision by the board received support from a large majority of surveyed individuals based on the study findings.

The research by Firew (2012) about operational risk factors and bank performance joins with this current study which evaluates risk management at large to demonstrate how board expertise and engagement are crucial factors. Evaluation of these matching results establishes that bank boards with knowledgeable members who actively participate deliver better banking performance while managing risks efficiently. The research demonstrates the essential nature of board executives who have the required knowledge and skills to make safety-focused decisions that protect operations.

This research adopts broader scope than Aragaw (2016) who studied risk management practices in relation to credit risk environments but reveals that sound risk management practices exist

throughout the sector. The research results from Aragaw (2016) establish the importance of good credit risk environment structure while the current study demonstrates that Ethiopian commercial banks effectively use these practices. Research from both studies reveals a solid and developing ability throughout Ethiopian banks to manage credit risks properly via systematic procedures together with standardized operational practices.

This study receives additional support from the findings presented in Firew (2012) alongside those in Aragaw (2016). Multiple research findings confirm that Ethiopian commercial banks consistently advance their risk management structures especially in operational areas and credit risk domains by following governance guidance while maintaining responsible risk supervision.

Examining the research results against those presented in Aragaw's (2016) study about credit risk practices in Ethiopian commercial banks produces additional analytical perspectives. The research conducted by Aragaw identified how beneficial credit risk management methods create appropriate conditions for managing credit risks. The findings of both studies agree when it comes to the evaluation of Ethiopian commercial banks' credit risk management practices which were rated as sound by respondents at 4.08109.

CHAPTER FIVE: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5. Introduction

This chapter explores vital discoveries and final thoughts as well as recommendations derived from research findings. The main research objective evaluated the risk management techniques implemented by Ethiopian commercial banks. The analyzed data shows how financial alongside non-financial risks are handled within these institutions with proposed areas for enhancement.

5.1. Summary of Major Findings

The main purpose of this research was to assess risk management operations within Ethiopian commercial banks. The study showed that Ethiopian commercial banks are doing a decent job in managing financial risks, including credit and liquidity risks, by having clear procedures and regularly checking how well they are working. However, non-financial risks, like strategy or reputational risks are often ignored or not included enough in how banks plan their business. While, operational risk is partly handled by internal controls, banks still need more clear systems and shared valued to handle bigger types of risks that aren't just money-related.

The research analysis shows that Ethiopian commercial banks practice risk management but their collective results confirm competent implementation capabilities. The research found that strategic risk management showed the weakest points of development among the assessed areas. Strategic risk management receives the lowest mean score (3.8927) indicating that banks have implemented systems but might require better strategies for proactively identifying and assessing and mitigating their strategic risks.

The positive outlook of respondents applies to credit risk management. The findings show commercial banks properly apply methods that deliver efficient credit risk management by utilizing identification procedures combined with evaluation techniques for risk mitigation followed by continuous monitoring. Credit risk management assumes an essential position for building strong credit portfolios which leads to reduced credit loss potential.

Operational risk administration garnered beneficial assessments from participants. The study participants demonstrated faith in bank operational risk management capabilities because banks

had established frameworks targeting concerns like equipment failures and staff mistakes along with process breakdowns. The systems prove essential for the business continuity of operations and the continued trust build-up of stakeholders.

The banks demonstrated exceptional performance in liquidity risk management because respondents rated this area with a mean score of 4.1136 compared to credit risk management at 4.0811. Operational risk occupied the second position with market risk ranking third and reputational risk falling between them. Strategic risk stood as the lowest in the ranking.

An assessment study reveals that Ethiopian commercial banks display superior capabilities but they need to focus on strategic foresight together with long-term planning to handle strategic risks adequately.

5.2. Conclusions

The study investigated the existing risk management strategies followed by commercial banks throughout Ethiopia. The gathered data enabled the researcher to conclude about the present risk management practices found in these institutions (banks).

The following conclusion can be made after looking at the results of the study:

- Banks are getting better at managing credit and cash flow (liquidity) risks by following rules and regulations, but there are still some ways they could get better at like when predicting risks a head of time and catching early signs when things start to go wrong.
- Internal controls are there, but there are still problems with people from different departments working together and with reporting problems, so it's hard to deal with safety problems completely.
- There is not much thought in business plans about possible strategic risks, which makes it harder for banks to adjust well in the long run.
- Banks usually don't have clear systems in place to regularly check how the public views their brand or how they are run, and instead, they mainly deal with problems as they come up.
- There is a clear lack of a unified risk management setup that brings all types of risks together the banks.

5.3. Recommendations

Based on the study's findings the following specific recommendations are made:

➤ **The banks must conduct scheduled risk assessment sessions and performance reviews.**

Banks need to conduct regular risk evaluations which help spot current threats and examine how well their present risk reduction protocols function. The institutions should perform stress testing periodically as well as scenario assessments and regularly conduct internal audits to maintain their alignment with shifting business environments.

➤ **Foster a Risk-Aware Culture**

The banks need to establish risk-conscious culture throughout all its operational levels. The organization must target uninterrupted risk training sessions and maintain full responsibility with everyone while actively promoting communication about risks.

➤ **Enhance Risk Identification and Monitoring**

The detection and monitoring systems of Ethiopian commercial banks require enhancement in order to perform their risk assessment capabilities effectively. Bank success will increase by both implementing strong monitoring frameworks and by providing precise risk reports in a timely manner to improve response capabilities and decrement exposure risks.

➤ **Emphasize Integrated Risk Management**

The complete process of risk management needs to become integrated. Organizations should merge the management of various risk classes while appreciating how these risk elements influence each other. Organizations gain better decision-making abilities through this approach because such a system produces a broader understanding of total risk exposure. Applying ERM framework such as COSO-ERM or ISO 31000 can help Ethiopian commercial banks address all types of risks.

➤ **Strengthen Strategic Risk Management**

Banks should devote increased attention to improving their strategic risk management based on the lower evaluation results. Banks need to set up regular planning, look at their strengths and

weaknesses and have a broad-level risk review processes to monitor and respond to strategic risks.

➤ **Develop reputational risk policies**

Make sure to have key reputational indicators (KRIs) in place and include them in customer reviews, reviews of compliance, and medial analysis systems.

➤ **National bank policy expansion**

NBE should make sure its guidelines on risk include a set of goals and monitoring methods for managing strategic and reputational risks.

5.4. Future Research Recommendations

Research needs to address multiple topics in the following areas:

➤ **Risk Management and Financial Performance**

Research must establish the relationship between risk management techniques and financial performance in all Ethiopian commercial banking sectors. Risk practices must be examined to determine their effects on business profitability and performance as well as organizational resilience capacity.

➤ **Impacts of External Factors on Risk Management**

Examine the effects that macroeconomic forces together with political climate changes and industry modifications along with climate change patterns produce on risk management practices. Knowledge about external factors enables organizations to develop responsive risk-related strategies.

➤ **Customer Perception of Risk Management**

The assessment needs to determine how bank customers view and understand the risk management approaches used by the banks. The study investigates the influence of risk transparency on customer trust levels and it impacts their loyalty and satisfaction.

➤ **Regulatory Compliance and Risk Management**

Analyze the degree of commercial bank risk management practice coordination with national as well as international regulatory standards. The research needs to explore both obstacles and advantages of developing stronger compliance and risk governance systems.

➤ **Innovation and Technological Advancements in Risk Management**

Analyze how artificial intelligence and machine learning systems and data analytics functions aid commercial banks to discover and manage risks. Examine which tools banking institutions in Ethiopia adopt for integration purposes while determining potential performance benefits for both efficiency and effectiveness.

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APPENDIX I
ST. MARY'S SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF BUSINESS ADMINISTRATION
MBA PROGRAM

QUESTIONNAIRE

Dear respondent, this questionnaire evaluates risk management practices at selected private banks operating in Ethiopia. Your truthful answers define essential elements for identifying challenges and suggested solution points in banking sector. The collected data will be used for academic purposes and to provide recommendations for concerned bodies while receiving full protection of information confidentiality and privacy standards.

Please mark (✓) for appropriate options and provide written responses where required. Your participation is highly valued.

Thank you for your time and cooperation!

General direction

- No need to write your name
- Please follow the instruction provided.

Part one - Background Information

Instructions: Please use this ✓ mark for each question to indicate your response.

1. **Gender:** Female ☐ Male ☐
2. **Age:** 20-35Year ☐ 36-50 ☐ above 50 ☐
3. **Level of education:** Diploma ☐ BA/BSc ☐ Sc/MA ☐ PhD ☐ others ☐
4. **Field of study:** Accounting ☐ Marketing ☐ Management ☐
Business administration ☐ Economics ☐ Others ☐
5. **Work experience in the Bank:** 1-5 ☐ 6-10 ☐ above 10 years ☐

Part two - The second section has been designed to obtain information regarding various aspects of risk management practices.

❖ **Kindly read the questions carefully and tick (✓) the selected choice clearly.**

❖ **Please be honest in your responses as these are important and valuable for the study.**

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

No	1. Assessment of Credit Risk Management Practices	1	2	3	4	5
1.	The Bank board of Director have adequate Knowledge on credit risk management Area;					
2.	Before deciding to approve a loan, a bank assesses the borrower's financial standing and credit worthiness as well as the value and legal security of its credit protection;					
3.	Senior Management Ensure that there is a periodic independent internal or external assessment of the bank's credit risk management functions;					
4.	The credit risk strategy Approved by the Board of Directors are effectively transformed and communicated within the bank;					
5.	The bank has an effective risk management framework policies and Procedures in place for managing credit risk;					
6.	The bank has well-structured a credit risk rating framework across all type of credit activities;					
7.	The Bank has Effective internal control system to ensure the implementation of policies, procedures and limits its credit function;					
8.	The Bank Management information system /MIS/ and analytical techniques to Measure the credit Risk inherent in all on and off balance sheet Activities;					
9.	Management Information System /MIS/ Provide Quality & detail information Timely;					
10.	The bank regularly prepares periodic report to the Board of Directors and senior Managements about credit risk Exposure of the bank;					
2. Assessment of Liquidity Risk Management Practices						
1.	The Bank board of Director have adequate Knowledge on Liquidity risk management Area;					
2.	There is a proper set of rules and guidelines, for managing liquidity risk, available in the bank;					
3.	The liquidity risk strategy Approved by the Board of Directors are effectively transformed and communicated within the bank;					
4.	The bank has sound risk management policies and Procedures in place for managing liquidity risk;					

5.	The Bank have adequate Management information system/MIS/ for measuring and monitoring the liquidity Risk;				
6.	The bank has contingency plans for handling unexpected liquidity problem;				
7.	There is an effective controlling system to ensure the implementation of policies, Procedures and limits;				
8.	The bank regularly prepares periodic report to the Board of Directors and senior Managements about Liquidity Risk Exposure of the bank;				
3. Assessment of Marketing Risk Management Practices					
1.	The board have adequate Knowledge on Marketing risk management Area;				
2.	There is a proper set of rules and guidelines, for managing Marketing risk, available in the bank;				
3.	The market risk strategy approved by the Board of Directors are effectively transformed and communicated within the bank;				
4.	The bank has an effective risk management policies and Procedures in place for managing Market risk;				
5.	The bank's overall market risk exposure is maintained at prudent levels and consistent with the available capital;				
6.	The bank adopts multiple risk measurement methodologies to capture market risk in various business activities;				
7.	The bank regularly prepares periodic report to the Board of Directors and senior Managements about market risk Exposure of the bank;				
4. Assessment of Operational Risk Management Practices					
1.	There is a proper set of rules and guidelines, for managing operational risk, available in the bank;				
2.	Board and executive management of the bank recognizes, understands and has defined all categories of operational risk applicable to their institution;				
3.	Senior management of the bank translate the strategic direction given by the board through operational risk management policy;				
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;				
5.	The Bank implemented effective ongoing monitoring system to detect operational losses quickly;				
6.	There is an effective controlling system to ensure the implementation of policies. Procedures and limits;				
7.	The bank regularly prepares periodic report to the Board of Directors and senior Managements about operational risk Exposure of the bank;				
5. Assessment of Reputational Risk Management Practice					
1.	The bank has frequent communication with customers and also engages their own employees serve as a brand ambassador in the community;				

2.	The bank talk about their values and provide declarations of people that helped;					
3.	The bank address customer problem on time;					
4.	The bank products and services are high in quality, value and meet the customer expectations;					
5.	The bank is environmentally friendly, a supporter of good causes and a positive contributor to the society;					
6.	The bank is innovative and adaptive;					
7.	The bank has strong overall financial performance and growth prospects;					
8.	The Bank maintain good workplaces and ensure the employees satisfaction;					
9.	The bank participates on Goodwill building activities;					
10	The bank is flexible if the crises happen;					
6. Assessment of Strategic Risk management practices						
1.	The bank strategic objective is SMART (specific, measurable, achievable, relevance, time bounded);					
2.	The bank has the right talent or capabilities to execute on its chosen strategy;					
3.	The bank environment scanning process (internal & external) is Exhaustive when formulate its strategy;					
4.	The Bank properly defines its business strategy and objectives by analyzing their strength, weakness, opportunities and treats;					
5.	The bank key performance indicators are easily quantifiable and efficient to measure results;					
6.	The bank identifies strategic risks that can drive variability in performance;					
7.	The bank establishes key risk indicators and tolerance levels for critical risks;					
8.	The board approves high level approach to strategic risk;					
9.	The chosen strategy creates unintended consequences or new risks for the bank;					
10.	The bank strategic implementation process is successive;					
11.	The bank effectively controls the strategic management process;					
12.	The bank prepares integrated report on a continuous basis for the senior managements;					

Section 2: please write your opinion

1. Challenges in Reputational Risk Management Process

Do you think Reputational Risk management in the bank is a challenging issue? If yes, what are the challenges the bank is facing?

2. Challenges in Strategic Risk Management Process

Do you think Strategic Risk management in the bank is a challenging issue? If yes, what are the challenges the bank is facing?

Challenges in Risk Management Process

Do you think Risk management in the bank is a challenging issue? If yes, what are the challenges the bank is facing?

APPENDIX II

Selected banks for this thesis

No	Name Of Bank	Address of Head Office	Establishment Year	No of Respondents
1.	Abay Bank	Zequala complex, Jomo Kenyatta Ave., Addis Ababa , Ethiopia	July 14 th ,2010	14
2.	Ahadu Bank	Africa Avenue, sunshine Building, Addis Ababa, Ethiopia	July 16 th , 2022	13
3.	Amhara Bank	Ras Mekonnen Ave, Leghar, Addis Ababa, Ethiopia	June 18 th , 2022	16
4.	Awash Bank	Awash Towers, Ras Abebe Aregay st, Addis Ababa, Ethiopia	November 10 th , 1994	18
5.	Bank of Abyssinia	The Gambia st, Leghar,Addis Ababa, Ethiopia	February,1996	17
6.	Bunna Bank	Wollo Sefer,Addis Ababa, Ethiopia	June 25 th , 2009	13
7.	Commercial Bank of Ethiopia(CBE)	Commercial Bank of Ethiopia Tower, Ras Desta Damtew st, Addis Ababa, Ethiopia	August 26 th , 1942	19
8.	Cooperative Bank of Oromia(COOP)	Africa Avenue, Flamingo Area, Get House Building,Addis Ababa, Ethiopia	October, 2004	14
9.	Dashen Bank	Dashen Tower, Sudan st, in front of the national bank of Ethiopia,Addis Ababa, Ethiopia	September, 1995	14
10.	Enat Bank	Enat Tower, Jomo Kenyatta Avenue, Addis Ababa, Ethiopia	September 28 th , 2008	12
11.	Hibret Bank	Hibir Tower, Ras Abebe Aregay st, Addis Ababa, Ethiopia	September 10 th , 1998	14
12.	Hijra Bank	Dembel, on the way to Olympia, Addis Ababa, Ethiopia	January 16 th , 2022	12
13.	Nib International Bank	Nib Tower, Ras Abebe Aregay st, Addis Ababa, Ethiopia	May 26 th , 1999	15
14.	Oromia Bank	Africa Avenue, Bole Road,Addis Ababa, Ethiopia	September 18 th , 2008	13
15.	Tsedey Bank	Ras Mekonnen Ave, Leghar, Addis Ababa, Ethiopia	April, 1997	14
16.	Tsehay Bank	Meaza Desalgne Building, Around Beklo Bet,Addis Ababa, Ethiopia	July 23 rd , 2022	12
17.	Wegagen Bank	Wegagen Tower, Ras Mekonnen st, Addis Ababa, Ethiopia	June 11 th , 1997	14
18.	Zemen Bank	Zemen Tower, Ras Abebe Aregay st, Addis Ababa, Ethiopia	October 2 nd , 2008	14
19.	ZamZam Bank	Wollo Sefer Garad city center, Ethio China st,Addis Ababa, Ethiopia	July 29 th ,2019	12