ST. MARY'S UNIVERSITY COLLEGE

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF RISK MANAGEMENT PRACTICE ON DEBUB GLOBAL BANK S.C

BY

SERKADIS YIMENU KEBEDE

JUNE, 2020

ADDIS ABABA, ETHIOPIA

ST. MARY'S UNIVERSITY COLLEGE

SCHOOL OF GRADUATE STUDIES

ASSESSEMENT OF RISK MANAGEMENT PRACTICE ON DEBUB GLOBAL BANK S.C

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS DEGREE IN BUSINESS ADMINISTRATION.

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DECLARATION

I declare that the research entitled “an assessment risk management practice of Debub Global Bank S.c is my original work; prepared under guidance of MaruShete (Associated Professor).All sources of material used for the research have been duly acknowledged.

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Endorsement

This thesis has been submitted to St. Mary's University, School of Business for examination with my approval as university advisor.

Advisor: __________________________

Signature_________________

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Addis Ababa, June, 2020

ACKNOWLEDGEMENTS

First and foremost, I would like to thank God for His grace, mercy and provision. My sincere appreciation goes to my advisor MaruShete (Associated Professor) for his unreserved comments and constrictive guidance to bring this thesis to reality. My heartfelt gratitude goes to my family and friends who helped me while I was working on this thesis. Finally, I would also like to thank the staff and management ofDebub Global bank for their kind cooperation during data collection.

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Acronyms

COSO- Committee of Sponsoring Organizations

CP- Contingency Planning

DGB- Debub Global Bank

ERM- Enterprise Risk Management

OLS- Ordinary Least Square

RMP – Risk Management Practice

SPPSS- statistical Package for Social Sciences

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Abstract

Risk Management is the application of proactive strategy to plan, lead, organize, and control the wide variety of risks that are rushed into the fabric of an organization's daily and long-term functioning. To this end the main objectives of this study is to examine the risk management practice of Debub Global Bank focusing on risk identification, risk measurement, risk monitoring and controlling of major risks. To achieve the objectives of the study data had been collected from employees of the bank through questionnaire designed based on Likert rating scale. The study adopted a descriptive research design which assisted to examine the risk management practice in the bank. The collected data were edited, coded and entered in to SPSS statics software and descriptive analysis tool such as frequency; mean value and standard deviationwere used to analyze the data. The finding showed that credit risk, liquidity risk and strategic risks are the types of risks that are described ashigh risk in the bank. Moreover, the overall level of risk management in the bank is found acceptable, but not adequate enough to mitigate the effect of major risks in the bank. To improve the risk management practice in the bank promoting common understanding of risk management policy, procedure and system across the organization, adopting Enterprise Risk Assessment (ERA) tool and organizing and staffing units responsible for risk management in branches as well as setting clear responsibility were among the recommendations forwarded.

Keywords*: Risk management, Risk identification, Risk measurement, Risk monitoring, Debub Global Bank, Ethiopia.*

CHAPTER ONE

1. Introduction

The research examines risk management practice in the banking industry in Ethiopia focusing on Debub Global Bank (DGB). Accordingly this chapter presents study background, statement of the problem, research objectives, significance and scope of the study, limitation and research organization.

1.1 Background of the study

In the current competitive business environment proper management of risk becomes crucial to business organizations as unmanaged risks adversely affect performance as well as threatening business survival. In this regard ISO-IEC, (2002) stated that risk Management Practices (RMP) is vital for an organization's strategic management. Similarly Tschemernjak, (2004) pinpoint that risk management is used by a firm's strategic management in order to make positive contribution to the goals, objectives and the portfolio of almost all its activities. The author went on saying that organization must integrate organization wide risk management practice as a nonstop and developing process in order to accomplish its goals.

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 management include financial risks management, operational risk management, governance risk management, and strategic risk management .The recent global financial crisis served as a reminder that risk management and how the same is practiced is fundamental if performance objectives are to be consistently achieved(Sabato, 2009). The author also argued that it has emerged that as business owners and managers strive to improve and sustain performance they are now also required to consider what risk management practices their organizations have adopted to avoid falling short of their strategic objectives.

A number of scholars emphasize the indispensability of an integrated risk management in the bank industry.   Steinberg et al., (2004) asserts that banks must integrate market, credit and operational risk into a single steam of capital measurement to have a

comprehensive picture of their entire capital resources and is considered an imperative component of enterprise risk management system. The author went on saying that this helps bank to establish its overall risk profile, determining how much risk it is taking and the level of diversification it can achieve by entering in different business areas.

Effective risk management can bring far reaching benefits to all organizations, whether large or small, public or private sector. According to Ranong and Phuenngam, (2009)these benefits include, superior financial performance, better basis for strategy setting, improved service delivery, greater competitive advantage, less time spent firefighting and fewer unwelcome surprises, increased likelihood of change initiative being achieved, closer internal focus on doing the right things properly, more efficient use of resources, reduced waste and fraud, and better value for money, improved innovation and better management of contingent and maintenance activities.

Rasid et al (2011), argued that risk management in an organization influence the organization profitability, through enhanced risk management practices. The authors further revealed that risk analysis of financial statement was allegedly the largest contributor towards risk management while budgeting and strategic planning are indispensable players in managing risk which affect the bank's profitability. Mwangi (2012) also revealed that some risk management practices do have significant effect on financial performance more than others i.e. the existence of a risk management policy and the integration of risk management in setting of organizational objectives were considered to be the key risk management practices that had a direct effect on financial performance. This means that although there are other determinants of performance, the banks can improve their performance by focusing on developing strong risk management policies and integrating risk management in the process of setting achievable organizational objectives

Tandelilin et al. (2007), claim that the risk management is very essential to safeguard the bank's assets and for the protection of the shareholders' interests. They further point out that the banks with better risk management may have certain advantages including: (i) It is aligned with the compliance function toward the regularity requirements; (ii) It improves bank reputation and increases the opportunity to attract more customers which

enhanced bank portfolio of fund resources and; (iii) It increases the efficiency and profitability of the bank. Cebenoyan and Strahan (2004) also conclude that the banks which have adopted more advanced techniques in risk management have greater availability of credit and this opportunity allows them to amplify their productive assets as well as profits.

As risk management is a key factor which determines organizations competitiveness proper mechanism and system of risk control should be put in place to establish, prevent and mitigate the risks encountered in operations of the organizations. To this end Gitman, (2008) argued that in a world that is constantly changing and with every change bringing about new ways of doing business with different outcomes, risk and how to manage it has become a critical issue.Cognizant with this fact this research conducted to assess the risk management practice of Debub Global Bank S.C.

Debub Global Bank S.C (DGB). is one of the private banks operating in Ethiopia, which is established in August, 2012 with subscribed capital of Birr 266.9 Million and paid up capital of Birr 138.9 million. The company has a legal entity registered with the licensing and supervisory body of the National Bank of Ethiopia in accordance with proclamation No-592/2000.

Over the past few years, the company has grown from 138.9 million to 707 million birr of paid up capital, from 15 to 77 branches both in the capital and regional cities and has more than 9,000 shareholders. The total asset of the company has reached birr 3.5 billion. DGB now is serving more than 100,000 customers across the country. The bank provides its esteemed customers a wide range of both domestic and international banking services.

1.2. Statement of the problem

Every bank is faced with several types of risks; therefore risk management is a key factor which determines the level of progress of the banks. The risk management function is responsible for ensuring that effective processes are in place for: identifying current and emerging risks; developing risk assessment and measurement systems; establishing policies, practices and other control mechanisms to manage risks.

Hassan (2009) investigated the extent to which the Brunei Islamic banks adopted risk management practices and techniques in coping with different kinds of risk. His study results showed foreign-exchange risk, credit risk and operational risk as the three most important types of risks in Brunei Islamic banks. His study results also indicated that the selected banks were reasonably well-organized in risk identification, risk assessment and analysis and risk monitoring.

Wood and Kellman (2013) conducted a study on the risk management practices of six Barbadian banks. They highlighted that the bank managers in Barbados considered the adoption of risk management as an important and critical force for their banks` overall performance.

They identified credit risk, operational risk, country risk, interest rate risk and market risks as the main types of risks in the selected Barbadian banks. They concluded that the risk management practices of the selected banks were efficient according to the changing business environment.

Selma, Abdelghani and Rajhi (2013) explored the risk management practices and techniques adopted by banks in Tunisia. The results of their study indicated that the bankers were well aware of the significance and the role of active risk management in Tunisia. They also concluded that the selected banks had implemented a number of effective risk strategies and the risk management frameworks in Tunisia. Furthermore, they highlighted that the methods to measure the credit risk exposures had still not been used effectively by the selected banks.

Hagos M. (2010) has investigated Credit Management on Wogagen Bank in Ethiopia. The main objective of the study is to evaluate the performance of credit management of Wegagen bank in Tigray Region as compared to National Bank's requirements in comparison with its credit policy and procedures. The following findings were the result of the investigation: the issues impeding loan growth and rising loan clients complaint on the bank regarding the valuing of properties offered for collateral, lengthy of loan processing, amount of loan processed and approved, loan period, and discretionary limits affecting the performance of credit management.

Bizuayehu (2015) carried out a study on the impact of credit risk on the financial performance of banks in Ethiopia using bank specific and macroeconomic factors covering a period of years 2003-2008. The study revealed that both bank specific factors and macroeconomic factors have inverse association with return on equity but only the bank specific factors are significant factors influencing return on equity.

Mekasha (2011) studied credit risk and its impact on the performance of a sample of six Ethiopian commercial banks. The result revealed that nonperforming loan to total loan ratio and loan provision to total loan ratio have inverse relationship with return on asset but only nonperforming loan to total loan was statistically significant. Whereas loan provision to nonperforming loan and loan provision to total asset have positive association with return on asset but both are insignificant to impact return on asset.

Awoke (2014) conducted a study on the impact of credit risk on the performance of samples of eight commercial banks in Ethiopia over the period of years 2008-2012. The findings shown that provisions to total loans and cost to total loans have inverse association with return on asset but loans to total assets and the natural logarithm of total assets have positive association with return on asset and all variables have significant impact on return on asset.

Gizaw, Kebede and Selvaraj (2015) evaluated the impact of credit risk on the performance of commercial banks in Ethiopia over a period of years 2003-2004. The findings revealed that non-performing loan to total loan and loan and advances to deposit have inverse association with return on asset while the other two have positive association with return on asset. However; only nonperforming loan to total loan and loan loss provision to total loan are statistically significant to impact return on asset. Further, the study revealed that except loan loss provision to total loan ratio all the proxies of credit risk have inverse relationship with return on equity and all are significant factors impacting return on equity.

Those studies conducted in other country and in Ethiopia emphasized the importance of risk management in the banking industry. Nevertheless an informal discussions made with some Debub global bank branch managers reveals that out of the 45 Debub global bank branches in Addis Ababa only two branches has risk management unit like credit

assessors, audit, finance and marketing as a result risk identification, measurement and monitoring and controlling activities are less addressed in DGB. Based on this the researcher presumes that risk management practice is compromised in the bank. Therefore the researcher is motivated to conduct this research to ascertain the overall risk management practice of Debub global bank.

Moreover majority of previous studies conducted in Ethiopia focused only on credit risk management, however this research incorporate major risks in the bank to provide a better picture of risk management practice in the bank. To this end, this study examined the risk management practice of Debub Global Bank focusing on risk identification, risk measurement, risk monitoring and controlling of major risks.

1.2.1 Research questions

1. What are the major risks in the Debub Global Bank?
2. Is there clearly stated and well communicated policy for risk management in the Bank?
3. What is the level of risk identification, risk measurement, risk monitoring and controlling in Debub Global Bank?
4. What are the major challenges associated with risk management practice of the Bank?

1.3 Research objective

1.3.1 General objectives

The general objectives of the study is to assess risk management practice of Debub Global Bank

1.3.2 Specific objectives

- To identify the major risks in Debub Global Bank
- To ascertain the availability of clearly stated and communicated risk management policy in the Bank
- To determine the extent of risk identification, risk assessment, risk monitoring and controlling in Debub Global Bank?
- To identify major challenges associated with risk management practice of the Debub Global Bank

1.4. Significance of the study

The research outcome expected to have the following significances:

The findings of this study help Debub Global Bank managers to judge the adequacy of efforts made towards managing the perceived risks. Moreover gaps identified in the research enables bank managers to take corrective actions to improve the risk management practice so as to enhance the bank performance and competitiveness.

Since research on bank comprehensive risk management practice is rare in the country, thus this research contribute to the body of knowledge in the field through narrowing gaps in the literature and can serve as a spring board for future research works as well as ignite academic discussions and debates in the field.

1.5. Scope of the study

Debub Global Bank currently has 77 branches in the country out of which 45 branches are located in Addis Ababa. Conducting this research in all branches is unmanageable due to time and finance constraints. Due to these constraints this research was conducted in Debub Global Bank head office and two selected branches (Main branch and Beklobet branch) located in Addis Ababa.

Debub Global Bank performs various activities to realize its objectives successfully. Nevertheless this research is conducted to examine major risk management practice of the bank focusing on risk identification, measuring and analyzing risk and monitoring risk. Moreover, Debub Global Bank is in operation since year 2012, this research examined the recent five years (2015-2019) risk management practice of the bank.

1.6. Limitations of the study

Limitation of this research is that discontent of respondents during data collection period due to fear of contamination with the current pandemic COVID-19 Corona Virus. This situation not only affects willingness of respondents it also affects availability of respondents as some of high risk employees are stay home. Another limitation is that review of documents related to risk management was not made due to the bank

manager's unwillingness to provide those documents. Therefore these situations may compromise the quality of the research output.

1.7. Organizations of the study

This study was organized into five chapters. Chapter 1 provides a brief background of the study, statement of the research problem, the study objective, significance, scope and organizations of the study. Chapter 2 reviews theoretical and empirical evidence research on after-sales service, customer satisfaction and conceptual frame work. Chapter 3 presents the methodology that was adopted in the study. Chapter 4 presents the results and discussions findings. Chapter 5 presents conclusions and recommendation.

CHAPTER TWO

2. Review of related literature

Introduction

In this chapter literature related to risk management were presented discussed and synthesized to promote a better understanding of the research problem and to laydown research framework.

2.1 risk management

Risk management is a key factor which determines the level of progress of organizations. Thus proper mechanism and system of risk control should be put in place to establish, prevent and mitigate the risks encountered in operations of the organizations, (Beckmann, 2007). An efficient risk management in risks could greatly reduce the costs of maintaining operations in organizations. In a world that is constantly changing and with every change bringing about new ways of doing business with different outcomes, risk and how to manage it has become a critical issue. The recent global financial crisis served as a reminder that risk management and how the same is practiced is fundamental if performance objectives are to be consistently achieved, (Gitman, 2008).

It has emerged that as business owners and managers strive to improve and sustain performance they are now also required to consider what risk management practices their organizations have adopted to avoid falling short of their strategic objectives, (Sabato, 2009). This is even more so in the financial services sector which was the most affected during the recent financial crisis. The risks facing financial institutions are mainly classified into; strategic, operational, credit and market risks. In managing these risks, the risk management approach adopted by the owners and/or management was influenced by the organizational culture and support, whether or not risk management is integrated in the setting of organizational objectives, whether there is a documented risk management policy or framework, how the risk identification process is conducted, the risk analysis process, evaluation and treatment of risk; risk monitoring and review; and last but not least ensuring that there is effective risk management, (Holland, 2010).

2.2 Risk in banking

Different authors apply diverse approaches to describe the scope of risk in banking. According Rahman, Abdullah and Ahmad, (2012) risk in banking refers to an exposure to unpredictability of the outcome that contains a probability of variation in the desired or expected returns. Ghosh (2012) defines risk in banks as a potential loss that may occur due to some antagonistic events such as economic downturns, adverse changes in fiscal and trade policy, unfavorable movements in interest rates or foreign exchange rates, or declining equity prices. Bessis (2002) and Schroeck (2002) interpret risk in banking as undesirable impacts on returns due to various distinct sources of uncertainties. Moreover, both have incorporated the limitation that the banking risks depend on the real world situations, also mainly comprising of amalgamation of situations in the external environment.

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

2.3 Risk Management in Banks

Schmit and Roth (1990) describe risk management as the accomplishment of different activities formulated to reduce the adverse effect of uncertainty regarding potential losses. Green (1992) explains risk management in banking institutions as a mixture of policies, procedures and persons, adopted to control the potential losses. This idea is supported by Santomero (1997) who mentions four steps of the risk management process which includes: standards and reports; position limits or rules; investment guidelines or strategies; and incentive contracts and compensations.

Bessis (2002) characterizes risk management as the complete set of risk management processes and models permitting banking institutions to put in place different risk-based procedures and practices. According to him, risk management contains all the tools and methods necessary for measuring, monitoring and controlling different risks. Schroeck (2002) describes the concept of risk management 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) further explains that the said process is comprised of various steps including the definition, identification, categorization, measurement, analysis, and mitigation of a bank's risk exposures.

According to State Bank of Pakistan (2003), risk management in banks comprises of identification, measurement, monitoring and controlling risks to make sure that:

- All the persons who manage or take risks clearly understand different risks;
- The risk exposure of the bank is within the limits set by the board of directors;
- All the risk taking decisions are aligned with the objectives and business strategies established by the board of directors;
- The wonted payoffs compensate for the risks taken by the bank;
- All the risk taking decisions are clear and explicit; and
- Adequate capital is available as a buffer to take risk.

All the above activities are generally taken to evaluate risk exposures, develop policies to deal with these exposures, limit positions in person to tolerable levels, and support decision makers to manage risk in order to achieve the goals and objectives of the banking institutions.

Form the above discussion, it can be summarized that risk management in banks is a complex process, beginning with the formulation of a framework to identify measure and analyze risks and then implementation of certain measures to minimize or control inevitable losses.

2.4 Risk Management Theory

Wenk (2005), states that the 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. Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk,

accidents, natural causes and disasters as well as deliberate attack from an adversary, or events of uncertain or unpredictable root-cause. Several risk management standards have been developed including the Project Management Institute, the National Institute of Science and Technology, actuarial societies, and ISO standards. Methods, definitions and goals vary widely according to whether the risk management method is in the context of project management, security, engineering, industrial processes, financial portfolios, actuarial assessments, or public health and safety (Simkins and Fraser, 2010). According to the authors 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.

2.4.1 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 managing all of the risks confronting an organization. Gordon et al., (2009) on the other hand define ERM as the overall process of managing an organization's exposure to uncertainty with particular emphasis on identifying and managing the events that could potentially prevent the organization from achieving its objective.

According to Committee of Sponsoring Organizations (COSO) (2004), "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".

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). This will help organization to balance the two most significant business pressures; the responsibility to deliver succeed to stakeholders and the risks associated with and generated by the business itself in a commercially achievable way. By doing so, the risk manager is constantly aware of the risks it faces

and therefore constantly monitors its exposure and be positioned to change strategy or direction to ensure the level of risks it takes is acceptable.

2.4.2 Contingency Planning Theory

According to Hisnson 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. Despite the organization's very best efforts to avoid, prevent or mitigate them, incidents will still occur. Particular situations, combinations of adverse events or unanticipated threats and vulnerabilities may conspire to bypass or overwhelm even the best information security controls designed to ensure confidentiality, integrity and availability of information assets (Hisnson and Kowalski, 2008).

Riley (2012), defines contingency planning as a forward planning process, in a state of uncertainty, in which scenarios and objectives are agreed, managerial and technical actions defined, and potential response systems put in place in order to prevent, or better respond to, an emergency or critical situation. A contingency plan is meant to help network and coordinate individuals, agencies and organizations to effect a rapid and effective response.

Contingency planning ensures the availability of stand-by resources and provides mechanism for rapid decision-making that can shorten disaster response and ultimately save lives. It is important to appreciate that planning and preparation are key to all CP-related activities. While many of us anticipate being able to deal with and get through crisis situations to some extent on-the-fly, CP aims to prepare suitable plans and stockpile essential resources in advance of any crisis to make the situation more manageable and less disruptive on the day. Furthermore, while it is sensible to prepare thoroughly for commonplace incidents (such as interruptions to power or telecommunications services), true CP includes an element of preparing for totally unanticipated events, for example pre-determining the crisis management structure and processes to assess and react appropriately to any incident more efficiently than if no such preparations had been made (Hisnson and Kowalski, 2008).

2.5 Types of Risks in Banks

The available literature describes different types of banking risks which are presented under here.

2.5.1 Credit Risk

This risk is one of the most premier and the most important types of banking risk (Colquitt, 2007). Credit risk refers to the likelihood in which a contractual counterparty does not meet its obligations due to decline in repay ability or unwillingness to comply with the contract (Bessis, 2002 and Schroeck, 2002)Therefore, credit risk emerges when a bank is failed to recover the lending money from a borrower, counterparty, or an obligatory. According to Hempel and Simonson (1999), credit risk is a threat that the bank may not be able to collect the principal or interest on loans and securities as promised. Generally, loans and advances are the biggest and the most obvious cause of credit risk in the majority of banks (Dhakan, 2006). Banks eliminate the credit risk through effective risk management that contains a comprehensive credit risk analysis based on scanning and monitoring of the most trustworthy loan applications, the degree of collateral, diversification of the loan portfolio, accurate loan pricing depending upon the borrowers' repay ability and intentions (Afriyie and Akotey, 2013).

2.5.2 Operational Risk

According to State Bank of Pakistan (2003), operational risk involves the direct or indirect losses suffered by a banking institution due to deficient or abortive internal processes, systems and people or from external environmental factors. This description is in line with several other opinions that the operational risk is related to the likelihood of inverse effects on the financial performance as well as the capital of bank that is the outcome of staff members' negligence, inadequate internal processes and inapt management information systems or unpredictable and undesirable external events (Santomero, 1997; Bessis 2002). The operational risk mostly emerges from the inside activities of bank unlike some other forms of risks like market and credit risk. However, a number of sources of operational risk come from the external environment such as competitive actions, natural disasters (such as floods, earthquakes) and terrorist attacks which are largely unpredictable and uncontrollable by banks (Fayyaz, 2006; Crouhy, Galai and Mark, 2006). Banks take efforts in order to control and reduce operational risk by: initiating training and development programmes for employees (staff capacity building); making investment in

advanced technology (systems capacity building); and developing backup systems and contingency plans (Hussain, 2006).

2.5.3 Legal and Regulatory Risk

This risk comes from the non-fulfillment of regulatory requirements by banks. Bessis (2002) takes it as the risk of disputes emerging from the different laws at play in banking transitions. This risk arises from violations or negligence of, or non-fulfillment of legal requirements, regulations, procedure and ethical standards (Schroeck 2002; Fayyaz, 2006;). For instance, Sokolov (2007) explains that banks involved in e-banking can experience legal and regulatory risk with regard to customers' disclosures and their privacy protection issues. In case of failure to provide adequate privacy protection as per rules, banks may face financial losses in the form of fines, payments of damages, civil money penalties, and the rescinding of contracts. Furthermore, this risk has also the potential to create an adverse impact on the reputation which may lead to lower the business opportunities or reduce banks' growth and may generate liquidity issues within banks (Fayyaz, 2006).

2.5.4 Liquidity Risk

Saunders and Cornett (2008) define liquidity risk as the unexpected raise in withdrawals by depositors that may pursue banks to liquidate their assets in the shortest time period. According to State Bank of Pakistan (2003), this risk is the potential loss caused by a bank's inability to meet its obligations. The liquidity risk arises due to several reasons including a rapid increase in the sudden demand of the bank's depositors and an inadequate market depth or market disruption (Santomero 1997). Crouhy, Galai and Mark (2006) argue that the insufficient liquidity can provoke a bank towards unexpected cash deficiencies which are needed to be covered at exorbitant costs and decrease profitability. They further highlight that the inadequate liquidity can induce a bank towards liquidity insolvency devoid of being capital insolvent. Hence, banks face liquidity risk when they are not able to meet their expected and contingent cash needs and borrow more funds when required (Fayyaz, 2006). On the other hand, the liquidity risk also incites several financial risks such as market risk, interest rate risk, credit risk, strategic risk (Bessis, 2002; Schroeck, 2002; State Bank of Pakistan, 2003; Fayyaz, 2006;). For instance liquidity risk provokes interest rate risk due to unknown rates of future funding and investment (Tahir, 2006).

2.5.5 Market Risk

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

2.5.6 Foreign Exchange Risk

This risk arises due to an erratic transition in the foreign exchange rate resulted into a negative impact on the obligations of banks (Tahir, 2006). Several factors such as political stability, inflation, public debt, current account deficits and market speculation may serve to drive the currency down (Ishfaq, 2006). All the foreign exchange transactions with counter-parties located outside the home country contain this risk. Saunders and Cornett (2008) describe foreign exchange risk as the threat that variation in foreign exchange rate could affect inversely on the value of assets or liabilities reported in foreign currencies. Similarly, Bessis (2002) defines foreign exchange risk as bearing losses due to unfavorable changes in the foreign exchange rates. These losses may arise because of an imbalance between the market value of specific assets or liabilities in the local and foreign currency. Crouhy, Galai and Mark (2006) point out that the volatility in foreign exchange may disrupt the return of pricey on the overseas investments, and simultaneously involve a bank in a competitive disadvantage to its foreign competitors. They further explain that the adverse foreign exchange volatility may also generate immense operating losses and lead to inhibit investment.

2.5.7 Interest Rate Risk

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

in market values of assets and liabilities. As a result, banks use different derivative techniques including options, swaps, futures and forward contracts to control the interest rate risk (Bessis, 2002;Tahir; 2006).

2.5.8 Counterparty Risk

This risk arises when the counterparty of a trade transaction potentially fails to meet its obligations (Fayyaz, 2006). Santomero (1997) considers counterparty risk as the non-performance risk of a trading party. The counterparty risk is more transient banking risk than typical default risk of creditors and is usually linked to credit derivatives in which each member of counterparty is sensitive to symmetrical two-way risk exposures (Besis, 2002; Crouhy, Galai and Mark, 2006).

2.5.9 Country (Political) Risk

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

2.5.10 Equity or Commodity Price Risk

This risk arises due to negative change in the market value of equities or commodities kept by banks (Bessis, 2002). State Bank of Pakistan (2003) characterizes equity or commodity price risk as the loss to capital or earnings that occurs due to an adverse movement in the market value of equity related portfolios. This risk is either systematic or unsystematic in banking operations. The earlier is associated with the price volatility of portfolio's values due to change in the overall equity prices and the later refers to the sensitivity of portfolio's value based upon the bank specific characteristics.

2.5.11 Reputation Risk

This risk is associated with the trusts and beliefs of customers and other stakeholders of the banking institutions (Green, 1992; Arby, 2006). According to Basel Committee (2009), reputation risk is the possibility of losses emerging from a negative perception on the side of

customers, depositors, counterparties, market analysts, investors, shareholders, regulators and other concerned parties. This risk can have an unfavorable impact on banks' ability to sustain existing or to develop new business affairs in order to maintain a continuous source of obtain funding (Ishfaq, 2006).

2.5.12 Strategic Risk

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

2.5.13 Technology Risk

Bessis (2002) describes the technology risk in banks as the imperfections of information systems and systems failures caused by virus attack, network failure, hacking, poor system integration and lack of skills. Crouhy, Galai and Mark (2006) point out that principally technology risk falls into the operational risk category.

2.5.14 Off-balance Sheet Risk

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

2.5.15 Solvency Risk

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

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

2.6 Empirical review

Al-Tamimi (2002) conducted a study on the risk management practices of the UAE commercial banks. He used survey questionnaire technique to obtain data regarding different methods and techniques used for the management of important types of banking risks covering credit risk, market risk, liquidity risk and operational risk. He used descriptive statistics analysis and found that credit risk was the most critical type of risk for the selected banks. He identified that the most common methods used for risk identification were the inspection by branch managers and the financial statement analysis. He further observed that the UAE banks used many techniques including establishing standards, analysis of credit worthiness, risk rating, credit score and collateral for risk management. He found the adoption of a conservative credit policy as the most effective technique for the risk management in these banks.

Al-Tamimi and Al-Mazrooei (2007) carried out a comparative study to explore the risk management practices of the UAE national and foreign banks. They examined the extent to which the banks in UAE exercised risk management practices in coping with different kinds of risk. They obtained primary data by adopting a survey questionnaire method regarding different aspects of risk management in UAE banks including understanding risk; risk identification; risk assessment and analysis; risk monitoring; risk management practices; and managing credit risk. They applied different descriptive analysis and found that the banks of UAE were facing mainly foreign exchange risk, credit risk and operating risk. Their study results indicated that the banking staff in UAE had a common understudying of risk management in banks. They further revealed that the UAE banks were generally good in risk identification; risk assessment and analysis andrisk monitoring. Their study showed that the risk survey, audits, financial statement analysis and inspection by the bank risk managers were the important methods of risk identification in selected UAE banks.

Sokolov (2007) studied the risk management practices of banks in Estonia with consideration in the field of e-banking. He conducted a survey study and distributed questionnaires to different local and foreign banks in Estonia. On the basis of the descriptive analysis, he found that the

important risks connected with the field of e-banking were operational risk, legal risk, strategic risk and reputational risk.

Hassan (2009) investigated the extent to which the Brunei Islamic banks adopted risk management practices and techniques in coping with different kinds of risk. A questionnaire survey technique was used to obtained data about understanding risk, risk assessment and analysis, risk identification, risk monitoring and managing credit risk. His study results showed foreign-exchange risk, credit risk and operational risk as the three most important types of risks in Brunei Islamic banks. His study results indicated that the selected banks were reasonably well-organized in risk identification, risk assessment and analysis and risk monitoring.

Rosman (2009) proposed a research framework on risk management practices and the different aspects of risk management processes. His study found four key aspects of the risk management process such as understanding risk, risk identification, risk analysis and assessment and risk monitoring.

Shafiq and Nasr (2010) studied the awareness of risk management in fifteen private and public banks in Pakistan. They found that credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk were the most critical types of risks in Pakistani banks. Their study results indicated that there was a common understanding of risk among the staff working in the risk management department of selected commercial banks of Pakistan.

Khalid and Amjad (2012) studied the risk management practices of Pakistani Islamic banks. They collected primary data from the managers of risk management through questionnaire survey. Both descriptive and inferential statistics analyses were used. Their study results showed that the banking staff had a common understanding of risk management and the selected Islamic banks in Pakistan were good in risk identification; risk assessment and analysis and risk monitoring.

Nazir, Daniel and Nawaz (2012) also conducted a comparative study of risk management practices of Pakistani conventional and Islamic banks. They also used survey questionnaire technique to collected data from the managers of credit risk management departments. They revealed that the banking staff had a common understanding of different risks and risk management in banks. Their study results highlighted that the targeted banks were well-organized in risk identification, risk assessment and analysis and risk monitoring. In order to

assess the important aspects of risk management, they applied a multiple regression model by adopting ordinary least square (OLS) technique and concluded that risk understanding and risk monitoring were the important aspects of risk management practices of banks in Pakistan.

The current section of this chapter has described different types of risk exposures as well as ascertains the nature of management practices and techniques utilized by banks to deal with these risks in different countries. According to the foregoing studies, a risk management practice involves different aspects such as risk understanding, risk identification, risk assessment and analysis and risk monitoring. Accordingly, this research examines risk management practice of Debub Global Bank focusing on risk identification, risk measurement and analysis and risk monitoring.

CHAPTER THREE

3. Research Methodology

3.1 Introduction

This chapter deals with the research methodology which integrates the various techniques used for the study for the purpose of achieving the research objectives. It takes into account issues such as the research approach, research design, research population, sample size, sampling technique, data collection method, data analysis and ethical consideration.

3.2 Research Approach and design

Nowadays, the use of both quantitative and qualitative methods (triangulation) in social science research has received significant attention among scholars and researchers. Tashkkori and Teddlie, (2003), prove this by stating that some researchers consider it to be a third research method in addition to quantitative and qualitative methods. Different names have been given to this new research method including multi-strategy (Bryman, 2004), mixed methodology (Tashkkori and Teddlie, 1998), or mixed methods (Creswell, 2003). Combining the two methods help researcher to increase the study credibility compare to what would be achieved by using a single method (Jick, 1979).Taking into consideration the significance of applying mixed method in modern research, the researcher adopt mixed method which combines quantitative and qualitative techniques for the reasons of achieving credibility of result, for better interpretation of result, to offset the weaknesses associated with using one method and to achieve rationale between the two methods.

3.2.1 Research Design

According to Burns and Bush (2002), research design is defined as a set of advance decisions that make up the master plan specifying the methods and procedures for collecting and analyzing the needed information. Some of the main types of research design are exploratory, explanatory, descriptive and cross-sectional. To address the research objectives this study adopted descriptive design. Descriptive research enables the researcher to provide an accurate description of observations of phenomena as the objective of most descriptive research is describing the state of affairs at the time of study.

3.3 Research Population

Saunders (2007) defines research population as the full set of cases from which a sample is taken. The target population for this study is made up of workers of DGB head office, and two branches (Main branch and Bekllobet branch) located in Addis Ababa. The two branches were selected purposely because out of the 45 Debub Global branches only Main and Beklobet branch are organized with risk management units such as credit assessment and provision, financing, audit and others. For the rest of branches risk is management activity is carried out by the head office, which will be considered in this study too.

3.4 Sampling method

According to Debub Global bank Human resource data the current total number of employees working in the head office and the two branches are 85, as a result the researcher used census sampling technique as obtaining the required data from this number of respondent is quit manageable. Therefore all employees in head office and two branches who are involved in the risk management practice participated in the research.

3.5 Source of Data

Data required for this study obtained dominantly from primary source as the objective of this study is to assess risk management practice of DGB. Accordingly primary data obtained from employees of DGB head office, Main branch and Bekllobet branch. Nevertheless secondary source particularly the bank records used to get information related to the company profile and number of employees.

3.6 Data collection instruments

The primary data essential for this research gathered from employees through using closed ended and open ended questionnaire. Moreover document review made to obtain secondary data required for the research purpose.

Questionnaire survey: Questionnaire was a major data collection tool in realizing the objectives of this research. In line with this questionnaire was organized in to three parts: part one seeks information on respondent's demographic character like gender, age, qualification and work experience. Part two comprise questionnaires designed to identify major risks of the bank. Questionnaires was developed based on Likert rating scale (3= major risk, 2= moderate risk, 1= low risk). Part three measure the risk management practice and identify major challenges in the bank. Accordingly questionnaire in this part designed on Likert rating scale (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree) to measure employee level of agreement.

Document review: Document review was conducted to obtain information about the company profile, number of branches and number of employees that can provide general information about the DGB.

3.7 Data analysis

Data collected for the purpose of this study analyzed in the following way: data collected from the questionnaires was edited, coded keyed and entered into Statistical Package for Social Sciences (SPSS). Data collected through questionnaire in the form of Lickert scale has a quantitative nature. Accordingly, quantitative data analysis which is descriptive statistics tools was used. The collected data presented on tables, frequency distribution and mean value computed for analysis and interpretation.

Qualitative content analysis adopted to analyze open ended questionnaire response and data obtained from document review. Hsieh and Shannon (2005) posit that qualitative content analysis is a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns.

3.8 Reliability

Internal consistency reliability is a measure of consistency between different items of the same construct. Cronbach's alpha and is a reliability measure designed by Lee Cronbach in (1951). It is commonly used as a measure of the internal consistency or reliability of a psychometric test score for a sample of examinees. For testing the reliability of the data instrument, Cronbach's alpha coefficient of reliability calculated to test the reliability of the research instruments. According to Lombard (2010), Coefficients of 0.90 or greater are nearly always acceptable, 0.80 or greater is acceptable in most situations, and 0.70 may be appropriate in some exploratory studies for some indices. Therefore for this study R-value equal to 0.70 or greater was accepted. The following table depicts the results of reliability test.

Table 3.1. Test of reliability

Variables	Number of Items	Cronbach's Alpha
Risk management policy and communication	5	0.84

Risk identification	5	0.82
Risk assessment and measurement	6	0.79
Risk monitoring and controlling	5	0.85

Source: Survey questionnaire, 2020

Since the value of Cronbach's alphas for this study is above 0.70 for all scale variables, the data collected from respondents was reliable and consistent. In simple term the result is confirmed the reliability and consistency of the data collection instruments.

3.9 Validity

Validity refers to the extent of accuracy of the results of the study. Validity of the results can either be internal or external. Internal validity refers to the analysis of the accuracy of the results obtained. External validity refers to the analysis of the findings with regards to whether they can be generalized (Ghauri&Grönhaug 2005). Therefore to achieve validity questionnaires was include a variety of questions on the knowledge of respondents. Questions were developed based on information gathered during the literature review to ensure that they are representative. Moreover the questions were formulated in simple language for clarity and ease of understanding and clear instructions will be given to the subjects. In order to improve the strength of questionnaires, research advisor comments and pilot test feedback was used so as to make all the necessary amendments such as reorganization of questions along research questions, eliminating of unnecessary questions, and eliminating of grammatical errors was made.

3.10 Ethical considerations

In undertaking the research, the necessary approval and permission letter was obtained from the University. Every person involved in the study was entitled to the right of privacy and dignity of treatment, and Information obtained held in strict confidentiality by the researcher. All assistance, collaboration of others and sources from which information were drawn were acknowledged. In general the following ethical considerations observed in this research. a) Fairness. b) Openness of intent. c) Disclosure of methods. d) Respect or the integrity of the

individuals e) Informed willingness on the part of the subjects to participate voluntarily in the research act.

CHAPTER FOUR

4. RESULTS AND DISCUSSIONS

4.1 Introduction

The study examines risk management practice of Debub Global Bank. Accordingly, the data collected for the study is presented and discussed in this chapter. The collected data was edited, coded and feed to SPSS statistical software. The collected data analyzed using descriptive statistics. Using descriptive statistics data was presented in table and frequency distribution, mean value and standard deviation were computed. A total of 85 questionnaires were distributed to employees and out of which 77 properly responded and collected by the researcher (response rate is 91%). Thus analysis and interpretations performed based on 77 respondents response.

4.2 Demographic characteristics of respondents

This section demonstrations the distribution of the study respondent's demographic characteristics. The study analyzed respondent's demographic data to determine whether the sampled respondents were sufficiently qualified to respond to the data collection instrument. The following depicts demographic characteristics respondents such as gender, age category, educational qualification and work experience.

Table 2 below shows the demographic characteristics of respondents. Accordingly, 41 (53%) respondents are male and 36(47%) constitutes females. This indicates that the bank employees gender distribution is proportional..

Age wise 10(13%) between 18-28 years old, 40(49%) are 29-39 years old, 20(26%) are 40-50 years old and (10%) are above 50 years old. As majority of respondents are 29 and above years old and this indicates respondent's level of maturity to provide the required information for the study.

With regard to respondent's level of education, 49(63%) are first degree holders, 16(21%) have master's degree, and 12(16%) are diploma holders. Majority of respondents have first degree and master's holders, thus respondents can understand the data collection instruments to provide pertinent information on the subject.

Table 4.1: Demographic characteristics of respondents

Demographic characteristics	Frequency	Percentage
Gender		
Male	40	52%
Female	37	48%
Total	**77**	**100%**
Age		
18-28	10	13%
29-39	40	51%
40-50	20	26%
Above 50	7	10%
Total	77	100%
Education level		
High school complete	0	0%
Diploma	12	16%
First degree	49	63%
Master's degree	16	21%
Above masters	0	0%
Total	77	100%
Work experience		
Below 1 year	7	10%
1-5 years	21	27%
Above 5 years	49	63%
Total	77	100%

Source: Own survey, 2020

With regard to respondent's level of education, 49(63%) are first degree holders, 16(21%) have master's degree and 12(16%) are diploma holders. Majority of respondents have first degree and master's holders, thus respondents can understand the data collection instruments to provide pertinent information on the subject.

Concerning to respondents work experience, 49(63%) have above 6 years' work experience, 21(27%) have 1-5 years' work experience and 7(10%) have work experience less than one year. As majority of respondents have more than 5 years' service in the bank they can provide credible information to the research questions.

4.3 Risk management in DGB

Bessis (2002) characterizes risk management as the complete set of risk management processes and models permitting banking institutions to put in place different risk-based procedures and practices. Thus risk management contains all the tools and methods necessary for measuring, monitoring and controlling different risks. Schroeck (2002) also described the concept of risk management 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. Accordingly this section presents, analyze and interpret respondent's response to major types of risks, extent of risk management practice and challenges of risk management in DGB.

4.3.1 Major types of risk in the bank

Banks deals with various types of external and internal risks to mitigate their likely hood effect on profitability and overall performance. However the different types of risks do not have equal impact on banks profitability and performance. Hence some risks may have devastating effect, others may have modest effect and still some risks may have less or insignificant effect on banks performance and profitability. Understanding severity of the different types risks help banks to prioritize the risks and to develop effective mitigation strategy. Accordingly respondent's response on the severity of the different risks is presented in the following table.

Table4.2. Major Risks at Debub Global Bank

Types of risks	High risk		Moderate risk		Low risk		Total	
	frequency	%	Frequency		frequency		frequency	
Credit risk	51	66%	20		6		77	
Liquidity risk	50	65%	25		2		77	
Market risk	20	26%	40		17		77	
Operational risk	35	45%	36		6		77	
Foreign-Exchange Risk	25	32%	39		13		77	
Technology Risk	18	23%	45		14		77	
Legal and Regulatory Risk	22	29%	42		13		77	
Interest Rate Risk	18	22%	46		13		77	
Reputation risk	20	26%	17		40		77	
Equity/Commodity Price Risk	10	13%	20		47		77	
Strategic risk	42	55%	22		13		77	
Solvency Risk	15	19%	20		42		77	

Source: Own survey,2020

As shown in table3 respondents rated credit risk as high risk to the bank as confirmed by majority 51(66%) response. Credit risk emerges when a bank is failed to recover the lending

money from a borrower, counterparty, or an obligatory. The result indicates that credit risk is a major risk in the bank that may adversely affect the bank profitability and performance if not managed properly. Therefore credit risk is a top priority for the bank that requires effective identification analysis and monitoring of the most trustworthy loan applicants.

The second major risk in the bank is liquidity risk as witnessed by majority respondent's 50(65%) response. Saunders and Cornett (2008) define liquidity risk as the unexpected raise in withdrawals by depositors that may pursue banks to liquidate their assets in the shortest time period. The liquidity risk arises due to several reasons including a rapid increase in the sudden demand of the bank's depositors and an inadequate market depth or market disruption. Thus inadequate liquidity can induce the bank towards liquidity insolvency and devoid of being capital insolvent if managers are negligent to manage liquidity risk properly.

Another major risk in the bank is strategic risk as majority of respondents 42(55%) confirmed that strategic risk is high risk in the bank. strategic risk is one of the most important types of risks in banking activities and related to the strategic decisions having implications for all other types of risks (Bessis, 2002). Thus unsound strategic decisions made by the bank managers may jeopardize the bank success and growth.

Respondents rated market risk, operational risk, foreign-Exchange risk, technology risk, legal and regulatory risk and interest rate risk as moderate with a response rate of 40(52%), 36(47),39(51%), 45(59%), 42(55%) and46(60%) respectively. As these risks cause substantial reduce in the bank profitability managers need to address them adequately in order to minimize the potential risks.

Reputation risk, Equity/commodity price risk and solvency risks are rated by respondents as low risk in the bank as confirmed by response rate 40(52%), 47(61) and 42(52%) respectively. The consequence of not managing these risks has insignificant impact on the banks profitability and performance.

To conclude this section, credit risk, liquidity risk and strategic risk are high risk in the bank. The bank needs to manage these risks while adequately addressing moderate risks. Therefore a comprehensive risk identification, analysis and monitoring system should be in place to manage risks effectively depending on their degree of importance. Accordingly the next section examined the extent of risk management in bank.

4.3.2 Risk management practice in the bank

Schroeck (2002) explains risk management practice as a process comprised of various steps including the definition, identification, categorization, measurement, analysis, and mitigation of a bank's risk exposures. It can be summarized that risk management in banks is a complex process, beginning with the formulation of a framework to identify measure and analyze risks and then implementation of certain measures to minimize or control inevitable losses. To this end respondents response to questions related to the extent of risk management in the bank is presented analyzed in this section.

4.3.2.1 Risk management policy and communication

Policy provides general administrative guideline to accomplish the banks risk management activity. It provides direction and procedure to the risk identification, analysis and monitoring activities in the bank. Thus the bank requires policy to provide framework to the overall risk management practice. Moreover the banks risk management policy should be well communicated to all staffs involving in the risk management practice. Respondent's response towards risk management policy and communication is shown in the following table. In this research a mean value less than 3 indicates unsatisfactory risk management; a mean value3-3.4 indicates low risk management, a mean value 3.5-4 indicates satisfactory risk management and a mean value greater than 4 indicate very satisfactory risk management.

Table 4.3. Risk management policy and extent of communication

Statements	N	Mean	Std. Deviation
The bank has clearly stated policy and procedure for risk management	77	4.19	1.07792
The bank's risk management policy and procedures are documented and provide guidance to staff about managing risks	77	4.23	.94365
There is a proper system for understanding various risks in the bank	77	3.80	1.07792
There is a common understanding of risk management across the bank staffs	77	3.38	1.11697
Responsibility for risk management is clearly set out and understood throughout the bank	77	3.42	1.12122
Valid N (listwise)	77		

Source: Survey questionnaire,2020

As indicated in table 4 respondents confirmed the availability of a clearly stated policy and procedure to manage risks in the bank with a mean value of 4.19. Policy set out the general direction and areas of emphasis for risk management practice and procedure prescribe the sequence of activities to be accomplished in the risk management process. Thus the bank policy and procedure provide guideline for risk identification, analysis and monitoring. to this end the bank policy and procedure are documented and will be useful for risk management staffs in dealing with risk management in the bank as confirmed by majority of respondents with a mean value of 4.28. Moreover there is a proper system to understand the various risks in the bank.

Common understanding of risk management across the bank staff is observed less satisfactory as indicated by a mean value of 3.38. Employees need to understand well the banks potential risks

and risk management policy as well as procedures in place to deal with the perceived risks. Employees knowledge gap towards the bank perceived risks, policy and procedure undermines their capacity of risk identification, analysis and monitoring which in turn results in poor risk management practice. Thus inadequate common understanding of risk management among the bank staffs may compromise risk management effectiveness in the bank.

Setting out clear responsibility and making them understood by staffs is found less satisfactory as witnessed by the majority of respondents with a mean value of 3.42.Employees should know precisely what is expected from them with regards to risk management to make them accountable for the outcomes. Thus lack of well understanding by employees what is expected from them undermine their effort towards risk management in the bank as they don't know clearly the roles they are supposed to play in the risk management process.

4.3.2.2 Risk identification

Risk identification is a deliberate and systematic effort to identify and document the Institution's key risks. The objective of risk identification is to understand what is at risk within the context of the Institution's explicit and implicit objectives and to generate a comprehensive inventory of risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives. This necessitated the development of risk identification guidelines to ensure that Institutions manage risk effectively and efficiently. The extent of risk identification in DGB is shown in the table below.

Table4.4 Risk identification

Descriptive Statistics			
Statements	N	Mean	Std. Deviation
The bank has developed and applied procedures for the systematic identification of risks	77	3.85	.85356
The bank carries out a compressive and systematic identification of risks	77	3.71	.84515
Changes in risks are recognized and identified regularly in the bank	77	3.61	.92066
The bank has an effective risk identification framework (infrastructure, process and policies) in place	77	3.66	.85635
The bank apply the most sophisticated techniques for risk identification	77	3.04	.86465
Valid N (listwise)	77		

Source: Survey questionnaire, 2020

The bank developed and applied procedures for systematic identification of potential risks as indicated by respondent's response rate mean value 3.85. Risk identification procedure provides direction to risk management staffs and help to accomplish risk identification activity sequentially and ensures consistency of risk identification.

An effort made by the bank towards comprehensive and systematic identifications of risk is satisfactory as indicated by a mean value of 3.71. The implication is that all potential risks of the bank are satisfactorily identified. Recognizing all possible types of risks in the bank is useful to deal effectively with the various types of risks in accordance with their level of severity.

Recognizing and identifying changes in risks regularly by the bank is observed satisfactory as witnessed by majority of respondent's response mean value of 3.61. Spotting early changes in risk and making adjustments accordingly is important aspects of risk management this is because some identified risks becomes invalid and some new risks may be posed due to changing circumstances. Thus the banks proactive monitoring changes in the potential risks enhance the effectiveness of risk management though making timely adjustment updating its potential risks.

Although the bank has framework for risk identification the application of sophisticated techniques for risk identification low as indicated by a mean value of3.04. This less use of sophisticated techniques in risk identification may reduce the quality of risk identification in the bank.

In general, the bank identification of its potential risk is promising if not adequate enough and it needs improvement in order to positively contributing to the effectiveness of the risk management practice.

4.3.2.3 Risk analysis and measurement

For each source of pure risk that is identified evaluation should be performed. In this stage the risk can be categorized to how often associated loss are likely to happen. In addition to evaluation of loss frequency, analysis of size or severity of the loss is helpful. Consideration should be given to the most probable losses that may happen. Table below depicts the bank risk analysis and measurement.

Table 4.5 Risk analysis and measurement

Descriptive Statistics			
Statements	N	Mean	Std. Deviation
This bank assesses the likelihood of occurring major risks	77	3.90	.62488
The bank assess the likelihood effect of all major risks	77	3.76	.62488
The bank make effort to prioritize its main risks	77	3.66	.94365
The bank's response to analyzed risks includes an assessment of the costs and benefits of addressing risks	77	3.57	.87014
The bank's response to analyzed risks includes prioritizing risk treatments where there are resource constraints on risk treatment implementation	77	3.61	.97346
This bank's risks are assessed by using quantitative and qualitative analysis methods	77	3.52	.98077
Valid N (listwise)	77		

Source: Survey questionnaire, 2020

Respondents rated the banks effort to assess the likelihood occurrence of major risks as satisfactory indicated by a mean value of 3.90. Determining the probability of occurrence of risks

help the bank to recognize the banks perceived risks that need to be addressed in its risk management strategy.

The bank also ascertain the likelihood effects of the perceived risks satisfactorily which is confirmed by majority response mean value 3.76. Measuring the magnitude the likelihood effect of perceived risks on the bank performance and profitability enables the bank to identify the relative importance of each risk so as to respond accordingly.

After having measuring the probable effect of each risk the bank make effort to prioritize the risks so as focus on high risks and to devise workable strategy to mitigate their adverse effect as indicated by the mean value of 3.66. Following this the bank develop alternative courses action to address its major risks and conduct cost benefit analysis to select the most payoff alternative course action as indicated by a mean value of 3.57.

Moreover the bank response to analyzed risks includes prioritizing risk treatments where there are resource constraints on risk treatment implementation that is confirmed by majority of respondent’s response mean value of 3. 61.

In conducting risk analysis and monitoring the bank use both qualitative and quantitative techniques so as to offset inefficiency associated with each technique.

To sum up this sub section, the banks risk analysis and measurement is satisfactory, nevertheless this doesn’t mean adequate enough. A thorough risk analysis and measurement is required for effective risk management.

4.3.2.4 Risk monitoring and controlling

Risk monitoring and controlling refers to the process of detailing and tracking identified risks as well as monitoring residual risks, also the identification of any new risks that may arise. This also includes the execution of business response plans, as well as making a thorough evaluation of their effectiveness. The extent of risk monitoring and controlling in the bank is presented in the following table.

Table 4.6. Risk monitoring and controlling

Descriptive Statistics			
Statements	N	Mean	Std. Deviation
Monitoring the effectiveness of risk management is an integral part of routine management reporting	77	3.71	1.00712
The bank has adopted a standard reporting system about the risk management from bottom to top management	77	3.85	1.19523
The bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses	77	3.80	.98077
Reporting and communication processes within the bank support the effective management of risk	77	4.00	1.00000
The level of control by the bank is appropriate for the risks that it faces	77	3.66	1.11056
Valid N (listwise)	77		

Source: Survey questionnaire, 2020

Monitoring the effectiveness of risk management is an integral part of routine management reporting in the bank as witnessed by respondent's response mean value of 3.71. This indicates that risk treatment responses and effectiveness of risk management is regularly evaluated and reported in the bank.

The bank use standard reporting system for risk management from bottom to top management as indicated by a mean value of 3.85. Using a standard reporting system in the bank ensures consistency for risk management reporting practice in the bank and promotes better understanding by managers and staffs.

Continuous monitoring and controlling of risks management ensure that the risk response strategy and the risk treatment action plan are implemented and progressed effectively. Accordingly the bank made evaluation of the effectiveness of the existing controls and risk management responses as indicated by a mean value of 3.80.

Continuous risk monitoring and regular reporting and communicating to organization members enhance the risk management practice in the bank as indicated by a mean value 4.00. Moreover respondents witnessed that the level of risk monitoring and controlling is appropriate for the risks that the bank faces with a mean value of 3.66.

In general risk monitoring and controlling in the bank is satisfactory to provide feed beck on risk management effectiveness to the management body as well as members of the organization.

Table 4.7. Mean summary of risk management

Risk management constructs	Mean	Std. Deviation
Risk management policy and communication	3.80	0.934
Risk identification	3.57	1.253
Risk measurement and analysis	3.67	0.872
Risk monitoring and controlling	3.81	1.002
Overall risk management	3.71	

Source: Own survey, 2020

The overall risk management in the bank is satisfactory as shown in the mean summary of risk management table8 above. Nevertheless this level of risk management cannot be considered as adequate enough to mitigate effectively the adverse effect of major risks on the banks

profitability and overall performance. Therefore the bank needs to improve its risk management practice to remain competitive in the current high competition banking industry.

4.4 Challenges of Risk management in DGB

The following table depicts respondent's response to the challenges the DGB facing in its risk management practice.

Table 4.8. Challenges of risk management in DGB

Descriptive Statistics			
Statement	N	Mean	Std. Deviation
Lack of proper policy and procedure to guide risk management in the bank	77	2.23	1.17918
Lack of a common understanding of risk management across the bank staff	77	412	1.11697
Absence of work unit responsible for risk management in branch banks	77	3.88	1.24403
Inadequate number of staff working in risk management	77	3.73	1.15470
Absence of compressive and systematic identification of major risks	77	2.99	1.04426
Poor assessment of the likelihood occurring of major risks and their effect	77	2.97	1.07571
Difficulty of prioritizing risks in the bank	77	2.82	1.28915
Inadequate monitoring and reporting of the effectiveness of the existing risk controls and risk management responses	77	2.61	1.16087
Valid N (listwise)	77		

Source: Survey questionnaire, 2020

As indicated table9 lack of a common understanding of risk management across the bank staff is the major challenge to the banks risk management practice as confirmed by a mean value of 4.12.

The second challenge to the banks risk management practice is absence of work unit responsible for risk management in branch banks with a mean value of 3.88.

Another challenge for risk management practice in the bank is inadequate number of staff working in risk management as confirmed by mean value 3.73 respondent's response. DGB needs to overcome the mentioned challenges so as to enhance the effectiveness of its risk management.

CHAPTER FIVE

5. Summary, Analysis and Interpretation

This chapter presents summary of major research findings, conclusions drawn from the findings and recommendations.

5.1 Summary of findings

Credit risk, liquidity risk and strategic risk are major risks in the bank as witnessed by majority of respondent's response rate of 66%, 65% and 55% respectively.Whereas respondents rated market risk, operational risk, foreign-Exchange risk, technology risk, legal and regulatory risk and interest rate risk as moderate with a response rate of 40(52%), 36(47),39(51%), 45(59%), 42(55%) and46(60%) respectively.Moreover reputation risk, Equity/commodity price risk and solvency risks are rated by respondents as low risk in the bank as confirmed by response rate 40(52%), 47(61) and 42(52%) respectively.

Respondents confirmed the availability of a clearly stated policy and procedure to manage risks in the bank with a mean value of 4.19. However common understanding of risk management across the bank staff and setting out clear responsibility and making them to be understood by staffs were found less satisfactory as indicated by a mean value of 3.38 and 3.42 respectively.

The bank developed and applied procedures for systematic identification of potential risks as indicated by respondent's response rate mean value 3.85. Effort made by the bank towards comprehensive and systematic identifications of risk is acceptable as indicated by a mean value of 3.71. Moreover recognizing and identifying changes in risks regularly by the bank is observed satisfactory as witnessed by majority of respondent's response mean value of 3.61. Nevertheless the application of sophisticated techniques for risk identification is low in the bank as indicated by a mean value of 3.04.

Majority respondents replied that the banks effort to assess the likelihood occurrence of risks is acceptable as indicated by a mean value of 3.90. The bank also ascertain the likelihood effects of the perceived risks and make effort to prioritize the risks as confirmed by majority response mean value 3.76 and 3.66 respectively. The bank conduct cost benefit analysis of alternative course action to select the most payoff alternative course action as indicated by a mean value of

3.57. In addition the bank response to analyzed risks includes prioritizing risk treatments where there are resource constraints on risk treatment implementation that is confirmed by majority of respondent's response mean value of 3. 61.

Monitoring the effectiveness of risk management is an integral part of routine management reporting in the bank as witnessed by respondent's response mean value of 3.71 and used standard reporting system for risk management from bottom to top management as indicated by a mean value of 3.85. Moreover the bank evaluates effectiveness of the existing controls and risk management responses as indicated by a mean value of 3.80.

Respondents witnessed that the level of risk monitoring and controlling is appropriate for the risks that the bank faces with a mean value of 3.66. The continuous risk monitoring and regular reporting and communicating to organization members enhance the risk management practice in the bank as indicated by a mean value 4.00.

Lack of a common understanding of risk management across the bank staff, absence of work unit responsible for risk management in branch banks and inadequate number of staff working in risk management are challenges facing the bank in its risk management.

The overall level of risk management in the bank is found acceptable but not adequate enough to mitigate the effect of major risks in the bank.

5.2 Conclusion

Credit risk, liquidity risk and strategic risks are categorized as high risk in the bank. These risks need to be managed effectively to minimize the likelihood effect on profitability and performance of the bank. Thus an exhaustive identification, analysis and monitoring should be in place to address those risks. Strategic risk has a far reaching impact in all other risks in the bank, thus managers required to make sound decisions so as to affect positively the banks profitably and performance.

The bank laid down a framework to manage its major risks and moderate risks that are affecting its performance. In the bank risk management policy and procedure are in place to provide direction and guide line for risk identification, analysis and monitoring activities in the bank. The established framework can facilitate the banks risk management activates and ensure consistency the risk management process. However the bank risk management policy and procedures were not effectively communicated to promote common understanding of risk management among the members of the organization who are involved in the risk management. This situation undermines employee's capacity and may compromise the effectiveness of the bank risk management. Moreover setting out clear responsibility and communicating to employee is found less satisfactory. This inadequate clarity of responsibility create confusion as employees are not fully understand what is expected from them, this intern reduce their effectiveness.

Comprehensive and systematic identification of risk and tracking changes on the identified risks is promising in the bank. This helps the bank to recognize its external and internal potential risks. But this satisfactory level of risk identification is not guarantee exhaustive identification of risks in the bank. This may lower risk management effectiveness because a risk that is not identified at this stage may be excluded from further analysis .Moreover the use of advanced technology in risk identification is low in the bank and this affects the quality and effectiveness of risk identification in the bank. Therefore the bank risk identification process requires further improvement so as to enhance effectiveness of the risk management practice.

Efforts made by the bank to assess the probability occurrence of the identified risks and measuring the likelihood effect on its performance is encouraging. This enables the bank to prioritize the perceived risks based on their level of severity and to use its resources optimally in addressing the risks. In addition the bank extends its analysis to evaluate the cost and benefits of

the proposed risk mitigating responses. This helps the bank to concentrate on most payoff risk mitigating measures. Nevertheless the bank risk analysis and measurement should be improved further to increase effectiveness of the risk management.

The bank continuously monitors effectiveness of risk management and produce regular report using standard reporting system. This continuous monitoring helps the bank to track risk management response progress as well as effectiveness and provide feedback for managers to improve future decisions.

Lack of a common understanding of risk management across the bank staff, absence of work unit responsible for risk management in branch banks and inadequate number of staff working in risk management are challenges facing the bank in its risk management. Thus the bank risk management effectiveness is also adversely affected by organization and human factors. To enhance the risk management the bank needs to overcome these challenges.

5.3 Recommendation

To improve the risk management practice in the bank the following recommendations are forwarded by the researcher.

Staffs common understanding of the bank risk management policy, procedure and system in place is essential for effective risk management. To this end managers should work towards promoting staffs common understanding of the banks risk management system. This can be done through conducting awareness session, arranging workshops and providing training to employees.

Comprehensive identification and recording of risks is critical, because a risk that is not identified at this stage may be excluded from further analysis. In order to manage risks effectively, the bank has to know what risks it faced with. The risk identification process should cover all risks, regardless of whether or not such risks are within the direct control of the bank. The bank should adopt a rigorous and on-going process of risk identification that also includes mechanisms to identify new and emerging risks. Risk workshops and interviews are useful for identifying, filtering and screening risks but it is important that these judgment based techniques be supplemented by more robust and sophisticated methods where possible, including quantitative techniques.

An effective risk assessment is fundamental to risk management and the board's risk oversight process. Successful risk assessments help directors and executive management identify emerging risks and face the future confidently. To this end the bank risk assessment can be improved by adopting enterprise risk assessment (ERA) tool. An enterprise risk assessment (ERA) is a systematic and forward-looking analysis of the impact and likelihood of potential future events and scenarios on the achievement of an organization's business objectives within a stated time horizon. The process begins with an articulation of the enterprise's governing business objectives as reflected in its strategy and performance goals. It applies predetermined risk criteria to well-chpaterdefined risk scenarios. Often, the assessment results are displayed on a grid or map for review by decision-makers to ensure risk owners are appropriately assigned and risk responses and metrics are in place.

Continuous monitoring and controlling risks ensure that the risk response strategy and the risk treatment action plan are implemented and progressed effectively. To enhance the banks risk

monitoring and controlling, the process of controlling and monitoring risks should include risk audits and risk reassessment,.

Finally the bank needs to organize risk management unit in branch banks and staffing them with adequate manpower. Moreover employees should be provided clear responsibility along with job description so as to make them aware of what is expected from them in the risk management process of the bank.

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APPENDIXES

ST MARY UNIVERSITY

SCHOOL OF GRADUATES STUDIES

Questionnaire prepared for employees of Debub Global Bank

Dear Respondent, I would like to express my sincere appreciation and deepest thanks in advance for your generous time and frank and prompt responses.

The purpose of the research is to examine risk management practice of DGB

I want to assure you that this research is only for academic purpose. Thus, your ideas and comments are highly honored and kept confidential. To create a Conducive environment for your free and genuine responses, you are not required to write your name.

Contact Address: If you have any query, please do not hesitate to contact me. I am available at your convenience time on

- **Tel. 09 13 74 85 73 or e-mail your questions to serkadisy@gmail.com**

Part I: personal information: please select the option that best describes you by putting [X] mark in the box provided.

1. Gender: A. Male ☐ B. Female ☐

2. What is your age?______ years old

3. What is your level of educational achievement so far? A. Certificate ☐ B. Diploma ☐ C. BA/BSc Degree ☐ D. Master's Degree ☐ E. Other: Please Specify-----------------------

4. How long have you been working in DGB? _________years

Part 2 : Please indicate your level of agreement to the following perception questionsrelated to DGB major risks

Where 3= high risk, 2= moderate risk, 1= low risk.

Risks types	**high risk (3)**	**Moderate risk (2)**	**Low risk (1)**
Credit risk			
Liquidity risk			
Market risk			
Operational risk			
Foreign-Exchange Risk			
Technology Risk			
Legal and Regulatory Risk			
Interest Rate Risk			
Reputation risk			
Equity/Commodity Price Risk			
Strategic risk			
Solvency Risk			

Part 3 : Please indicate your level of agreement to the following perception questionsrelated to DGB risk management practice and challenges

Where 5= Strongly agree (SA), 4= Agree (A), 3= Neutral (N), 2= Disagree (DA) and 1= Strongly disagree (SDA)

No	**STATEMENT**	**SA**	**A**	**N**	**DA**	**SDA**
	Risk management policy and communication					
1	The bank has clearly stated policy and procedure for risk management					
2	The bank's risk management policy and procedures are documented and provide guidance to staff about managing risks					
3	There is a proper system for understanding various risks in the bank					
4	There is a common understanding of					

	risk management across the bank staffs					
5	Responsibility for risk management is clearly set out and understood throughout the bank					
	Risk identification					
6	The bank has developed and applied procedures for the systematic identification of risks					
7	The bank carries out a compressive and systematic identification of risks					
8	Changes in risks are recognized and identified regularly in the bank					
9	The bank has an effective risk identification					

	framework (infrastructure, process and policies) in place					
10	The bank apply the most sophisticated techniques for risk identification					
	Risk assessment and analysis					
11	This bank assesses the likelihood of occurring major risks					
12	The bank assess the likelihood effect of all major risks					
13	The bank make effort to prioritize its main risks					
14	The bank's response to analyzed risks includes an assessment of the costs and benefits of addressing risks					

15	The bank's response to analyzed risks includes prioritizing risk treatments where there are resource constraints on risk treatment implementation					
16	This bank's risks are assessed by using quantitative and qualitative analysis methods					
	Risk monitoring and controlling					
17	Monitoring the effectiveness of risk management is an integral part of routine management reporting					
18	The bank has adopted a standard reporting system about the risk management from bottom to top					

	management					
19	The bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses					
20	Reporting and communication processes within the bank support the effective management of risk					
21	The level of control by the bank is appropriate for the risks that it faces					
	Risk management challenges					
22	Lack of proper policy and procedure to guide risk management in the bank					

23	Lack of a common understanding of risk management across the bank staff					
24	Absence of work unit responsible for risk management in branch banks					
25	Inadequate number of staff working in risk management					
26	Absence of compressive and systematic identification of major risks					
27	Poor assessment of the likelihood occurring of major risks and their effect					
28	Difficulty of prioritizing risks in the bank					
29	Inadequate monitoring and reporting of the effectiveness of the					

	existing risk controls and risk management responses					

30. If you have additional idea related to Debub Global bank please state

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____

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Thank you