St. MARY'S UNIVERSITY COLLEGE

SCHOOL OF GRADUATE STUDIES

RISK MANAGEMENT PRACTICES IN ABAY BANK, ADDIS ABABA, ETHIOPIA

By: - PHILIP Z KOLLIE

FEBRUARY, 2022

ADDIS ABABA, ETHIOPIA

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Advisor: - ZEMENU AYNADIS (Ass. prof)

ATHESIS SUBMITTED TO ST.MARY'S UNIVERSITY COLLEGE, SHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

FEBRUARY, 2022

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APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies	Signature
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External Examiner	Signature
Internal Examiner	Signature

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of. All sources of materials used for the thesis have been duly acknowledged. Ifurther confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

______________________________ ____________________

Name Signature

St. Mary's University College, Addis Ababa February, 2022

ENDORSEMENT

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

Advisor	Signature
St. Mary's University College, Addis Ababa	February, 2022

Acknowledgment

Primarily I want to take this opportunity to thank the Almighty God for His grace, strength, and privilege gave me to pursue this Master's program in addition to other academic attainments. Additionally, I remain grateful to my former Advisor Dr. Asfaw Yilma Demisse (Ph.D.) for his expert guidance, immeasurable patience, prompt review, and support during the onset of my study. May his soul rest in peace!

I am forever indebted to my current advisor Zemenu Aynadis, (Ass. Prof.); whose patience, professional guidance and, constructive comments enabled me to reach this far in my study. Moreover, I would like to thank the Heads and Staff members of the Abay Bank from the head office in Addis Ababa, for their precious time in responding to my questionnaire and interview.

Furthermore, I would like to particularly express my profound thanks and appreciation to the following individuals and Institutions for their valuable contributions and support to the success of my study. My gratitude goes to my mother Rebecca M. Cisco, for all your prayers and encouragement that has led me this far in my academic journey. I am humbled and blessed to have you. To my late father Mr. Phillip M. Kollie, I salute you papa for your tireless support during the early stages of my academic journey. Your encouragement gives me the motivation to reach this far in my academic attainment. To my Wife Mrs. Josephine G. K. Kollie, Children, and family members, I thank you all sincerely for the patience, love, and encouragement to support me in this endeavor. You are the pillars of my strength and to you my sister Cllr. Amb. Pastor Krubo B. Kollie, my special thanks for the inspiration and support. I am humbled and grateful to you all. To the Embassy of the Republic of Liberia near Addis Ababa, Ethiopia including the Head of Mission and all the staff, I salute you all for the encouragement and support during this study.

To my special Ethiopian Friends and brothers, Temesgen and Mareshet, thank you for the immense love, prayers, encouragement, and support during this academic journey.

Finally, I would like to take this special moment to express my sincere thanks and appreciation to the St. Mary University Graduate School program and the entire administration for the hard work in making the institution one of the best in Africa and allowing me to be a part of this great institution. I remain grateful to you all.

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Acronyms

ATM	Automated Teller Machine
BOD	Board of Directors
ERM	Enterprise Risk Management
IT	Information Technology
LIQR	Liquidity Risk Indicator
MIS	Management Information System
NBE	National Bank of Ethiopia
SPSS	Statistical Package for Social Science

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. Risk management has a contribution to the achievement of the overall success of an organization. This study examines the risk management practices in Abay bank, Ethiopia. It also make an attempt to identify the role of risk management practices to the bank. Moreover, challenges of the bank while implementing risk management progams are assessed. To achieve the objective of the study, both primary and secondary data were generated by employing qualitative (using interview) and quantitative (mainly using survey questionnaires from employees of the bank) methods. The research instruments majorly used included a set of questionnaires; for the respondents. The data collected has been presented using descriptive techniques and especially frequency distribution tables, pie charts and bar graphs. Purposive sampling techniques were used to select 151 sample employeesrespectively. The research revealed that the bank has established a well-constructed risk management infrastructure and is following government (NBE) regulations. proper risk management systems planted in Abay bank has contributed to the overall success of the organization. Cyber security Breaches, The political situation (instablity) in the country are some of the challenges affecting the bank's risk management practice. Based on the findings conclusion and recommendations were given. Recommendation has been given for other banks in Ethiopia to take the experience of abay bank as a role model in the practice of risk management. Security issues in the country must be guaranteed by the government, the management of the bank needs to give a great concern for security programs that can help to reduce the threats. the bank needs to devise a strategy to well equip its manpower with the necessary technology and training. Finally the need for further research is given as a recommendation.

Key words:Risk management, National Bank of Ethiopia, Cyber security

CHAPTER ONE

1.1. Background of the Study

The role of Banks remains central in financing economic activity and its effectiveness could exert a positive impact on the overall economy as a sound and profitable Banking sector is better able to withstand negative shocks and contribute to the stability of the financial system (Athanasoglou, Brissimis, and Delis (2005). A bank is a financial institution that principally links to the acceptance of deposits and advancing money to borrowers (Casu, Girardon, and Molyneux, 2006). The key role of a bank is to provide intermediation services between depositors and borrowers such as taking deposits that can be withdrawn on demand and lending money to business organizations and individuals on request.

The banking sector plays a crucial role in intermediating surplus units to the deficit units for the development and growth of the economy. It is an important source of financing for most businesses by maximizing the wealth of shareholders. But, while the sector plays those mentioned roles, it has so many risks that challenge the banking industry.

The term Risk in banking has extensively been probed by different investigators (Bessis, 2002; Schroeck, 2002; Gallati, 2003; Fayyaz, 2006; Ghosh, 2012; Rahman, Abdullah, and Ahmad, 2012) in recent years and does not have a universal definition. Different authors apply diverse approaches to describe the scope of this term. Risk in banking refers to an exposure to the unpredictability of the outcome that contains a probability of variation in the desired or expected returns (Gallati, 2003; Fayyaz, 2006; Rahman, Abdullah, and Ahmad, 2012). 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.

In recent years, the Ethiopian financial industry has registered encouraging growth. Currently, the financial sector includes 18 commercial banks, 16 insurance companies, and 19 microfinance institutions. The banking industry in the country is making great advancements in terms of quality, quantity, expansion, and diversification and is keeping up with the updated technology, ability, stability, and thrust of a financial system. Where the commercial banks play a very important role, emphasize the very special need for a strong and effective control system with extra concern for the risk involved in the business (FasikaFirew, 2012).

National Bank of Ethiopia (NBE) as a one and only regulator and supervisor of all financial institution activities in the country has a mandate to issue and provide guidance to all financial institutions as to the risk management system. Abay Bank is one of the financial institutions which is under the supervision and control of NBE. According to Abay Bank's annual report (2020), the name Abay is derived from River Abaywhich signals immense potential for the development of Ethiopia.Abay Bank was officially established on July 14, 2010, and started operation on November 4, 2010. The Bank has more than 4,189 shareholders.

Abay Bank works on buying and selling various kinds of foreign currencies. In line with the company's objective of "Banking for All," the bank extended service to Ethiopian Diaspora that suits their banking needs while they are living and working abroad.The bank aspires to foster growth and development by promoting and financing different sectors, thereby generating employment opportunities and accelerating capital formation, by ensuring a safe, stable, and sound financial system.In general, the bank has shown considerable performance and its role has grown considerably in terms of the volume of assets, deposits, and loans. However, as Minsky (1982) highlights; Because of a biased focus towards short-term performance and lack of effective risk management, several banks may suffer from potentially underestimated risks.

The result of ineffective risk management could be the collapse of a bank or ultimately the breakdown of the whole banking system (Kao et al., 2011; Aebi, Sabato and Schmid, 2012). Therefore, the management of different risks has become a keystone of sensible banking and its importance is increasing over time. Banks in our country such as 'Abay' bank, as one part ofthe financial sector,are expected to place more importance on risk management in the economy than any other sector due to their inherent nature of trade. Furthermore, it is imperative for banking institutions that they not only be efficient but also secure. Therefore, it is necessary to understand the riskexposures and risk management practices of 'Abay' Bank. It is,therefore, out of this backdrop that this study sought to see the risk management practices of ‘Abay’ Bank in selected branches in Addis Ababa.

1.2. Statement of the Problem

Several studies highlight banking as one of the most complex endeavors in any economy that faces a large number of financial and non-financial risk factors (Anderson, 2010; Shafiq and Nasr, 2010; Shafique, Hussain and Hassan, 2013; Wood and Kellman, 2013). The nature and complexity of these risks have changed rapidly over time and become more ominous not only for banking operations but also for bank’s survival (Bessis, 2002; Rahman, Abdullah, and Ahmad, 2012). It is imperative that banking institutions should not only be efficient but also secure (Pastor, 1999). Hence, it is necessary for a bank to understand its risks exposures and to make sure that these risks are adequately managed (Al-Tamimi and Al-Mazrooei, 2007).

Abu Hussain and Al-Ajmi (2012) point out that the understanding of different types of risks is very important for effective risk management in banks and these institutions ought to accept only those risks which are uniquely a part of their array of services. Therefore, all the risk management issues are not only important for the banking sector but are also vital for the overall growth of the economy (Kao et al. 2011).

According to the NBE risk management guideline (2010), although underdeveloped, the banking system in Ethiopia has observed a significant expansion over the past few years based on an increase in terms of the number of banks, financial products they are offering to the clients &, etc. The regulatory body believes that such growth should be matched with strong risk management practices. Previous literature on risk management practices of banks in Ethiopia is limited. The exception to this argument is that the available few studies gave focuses to assess particular types of risks.

For instance, FasikaFirew (2012) has investigated selected Ethiopian commercial banks' operational risk management, TibebuTefera (2011) has studied the impact level of credit risk management towards the profitability of commercial banks in Ethiopia, and TsionFekadeselassie (2015) has studied risk management practices in selected commercialbanks in Ethiopia. She found out that risk managers perceive risk management as critical to their bank's performance; the types of risks causing the greatest exposures are credit risk, operational risk, liquidity risk, interest rate risk, and foreign exchange risk; there was a reasonable level of success with current risk management practices and, banks are utilizing some of the approaches/techniques traditionally used to manage risks. Overall, her findings suggest that banks operating in Ethiopia are indeed risk-focused.

Furthermore, as risk management practices emanate from executing the business functions, which are in fact at the heart of the existence and survival of any business organization, it requires much attention to manage its catastrophic financial consequences and treat it accordingly. However, there are insufficient (few) works of literature that have been so far undertaken in the country concerning banks' risk management practices. Thus, to deal with the identified gap of the study, the researcher will analyze the risk management practices of Abay Bank taking into account the risk factors (Loss events) and their effect on the entire bank's performance. Likewise, the study has sought to explore the most contributory factors of the bank’s risk management practices. Therefore, the motivation of this study is to extend the literature by examining the various types of risks faced by Abay bank in Addis Ababa.

1.3. Research Question

The study attempts to answer the following research questions

- Is Abay bank practicing risk management?
- What is the role of risk management inthe bank’s financial performance?
- What are the challenges that deterthe implementation of a risk management system in the bank?

1.4. Objectives of the Study

The research has both general and specific objectives.

1.4.1. General Objective

The general objective of the study is to examinerisk management practices in Abay bank,Ethiopia.

1.4.2. Specific Objectives

To achieve the aim of the study, the following specific objectives of the study are developed:

- To determine the nature of risk management practice in the bank.
- To identify the role of risk management on the bank's financial performance.
- To explore the challenges of risk management system implementation in the bank.

1.5. Significance of the study

The researcher believes that the findings and recommendations that will be made based on data analysis will be an important ingredient to the banks under investigation and regulatory body in particular and the society in general. Additionally, the study will have the following significances: It will provide possible information for regulatory body on the status of the bank's risk management practices and findings could also be used in policy formulation; It will also be used by other banks in evaluating their operations in identifying and taking corrective actions about possible risk exposure areas; It will also serve as reference material for anyone who will undertake a further study on the same or related topic.

1.6. Scope of the study

1.6.1. Scope by Geographic Area

This study is cramped only in assessing risk management practices in Abay bank in Addis Ababa. The city of Addis Ababa is the political and economic capital of Ethiopia. Addis Ababa is selected as the study area because of the fact that the head quarter of Abay bank is located in the city.

1.6.2. Conceptual Scope

risk in banking industry can be understood 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. Based on different scholars there are many types of risk in the bank that challenges the growth and development of the industry; some of them are credit risk, operational risk, legal and regulatory risk, liquidity risk, market risk, interest rate risk, counterparty risk, country (political) risk, equity or commodity price risk, reputation risk, strategic risk, technology risk, off-balance sheet risk and solvency risk.

The main theme of the study is and the study give emphasize on the nature of risk management practice in the bank; to identify the role of risk management on the bank's financial performance and to explore the challenges of risk management system implementation in the bank. In this study, units of observation are the participant of the research from which relevant data are collected. They serve as a primary source of data for the study. The respondents (target groups) for this study include; employees and management staff in the bank.

1.6.3. Methodological Scope

This study is delimited in using a mixed method approach to comeup with the results. Data was only collected from purposively selected participants. In analyzing the data the researcher only used simple stastistics presented in graphs and tables.

1.7. Limitation of the study

The study is not immune to inevitable limitations that might affect the results of this study one way or the other. One of the limitation is related with sample and selection, due to time constraint and issues related to the pandemic (COVID 19) this study entertained insufficient sample size.The research could have been done involving a large number of participants with additional instruments such as Focus group discussions to obtain rich data.

1.8. Definition of terms

Banking: Economists define banks as financial intermediaries. A financial intermediary is an institution in the business of collecting money from savers and transferring it to borrowers. The money is collected by issuing liabilities to the money-saving public and loaned out against liabilities issued by borrowers; the financial intermediary thus becoming debtor to the first one and creditor to the latter ones. Banks would differ from other financial intermediaries such as mutual funds or insurance companies - only in the specific types of liabilities which they are able to issue and receive (Luis Angeles, 2019).

Risk: Risk is all about uncertainty. That is inability to precisely determine what will occur in the future, as future is full of uncertain. With regard to what is a risk Osborne (2012) has claimed that, what we all are talking about is a future problem- or, indeed, opportunity – or the potential future effect of a decision or an action that we take now.

Risks in banking: banking risk as a threat of failure to achieve goals set by the bank, for example, optimizing profit and ensuring operational safety. This risk is tantamount to the probability of events adversely affecting the bank's situation and prospects for its development (Iwanicz-Drozdowska, 2005).

Risk management: Risk management is the entire process of policies, procedures and systems an institution needs to manage prudently all the risks resulting from its financial transactions, and to ensure that they are within the bank's risk appetite. In some organizations, risk management work is carried out by independent risk management units rather than specially-named risk control sections Osborne (2012)

1.9. Organization of The Study

This study has been divided into five chapters. They are Introduction, Literature Review, Research Methodology, Data Analysis and Presentation, Summary and Conclusions.

Chapter I: Introduction

Introduction chapter gives a brief outline of the topic of the study. This chapter states the background of the research studies, research problem statement and clarifies the objectives, significance and limitations of this study.

Chapter II: Literature Review

This chapter deals with the review of literature on risk management practices. For this, knowledge related to the study has been examined from certain literature. To explain the main issue of the study concepts, empirical literature and theoretical reviews issues concerning the study are critically discussed throughout this chapter. Furthermore, the conceptual framework with the variables of the study is expressed in this chapter.

Chapter III: Research Design and Methodology

It includes all the topics describing how the entire data have been collected and designed to carry out the entire tasks of the thesis report work. It basically defines: what research design was used for the research, what methods and tools were used to gather data from the respondents and what is the data processing and analysis procedure and the methodology used for the study.

Chapter IV: Analysis, Result and Discussion

This chapter deals with the analysis, discussion, and interpretation of data collected during the study. The analysis is mainly based on primary data which were collected through the questionnaire filled by 129 respondents, 5 interviews from concerned officials, and secondary data. The data has been analyzed with references to the objectives of the study as mentioned in the first chapter. The data are presented with tables and diagrams to make them convenient to interpret.

Chapter V: conclusion and recommendation Finally, this chapter summarizes the whole research finding and appropriate recommendations are forwarded on the basis of the conclusion of the research. It comprises of conclusions based on research question and the chapter ended with the recommendations. This chapter is based on the interpretation and findings of the results.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

The initial search and review of existing literature help researchers to generate and refine their research ideas (Saunders, Lewis, and Thornhill, 2012). Therefore, this chapter deals with the review of literature on risk management practices. For this, knowledge related to the study has been examined from certain literature. To explain the main issue of the study concepts, empirical literature and theoretical reviews issues concerning the study are critically discussed throughout this chapter. Furthermore, the conceptual framework with the variables of the study is expressed in this chapter.

2.1. Theoretical Litrature Review

Several theories of risk management have been developed over the last 30 years. These theories depart from the neoclassical view by considering the effect of CR friction and other market imperfections on the firm's decision to hedge.

In this section, the key insights from these theories are summerized, review some of the main empirical studies, and discuss the empirical results. In the CR-rationing models of risk management (Froot et al., 1993; Holmstrom and Tirole, ¨ 2000), firms hedge to mitigate the effect of CR rationing on investment. Risk management helps to mitigate the effect of CR rationing as it reduces the volatility of cash flows that can be used to fund new investment projects in states where access to CR is limited or very costly. Froot et al. (1993) and Holmstrom and Tirole (2000) also argue that access to liquidity (e.g., cash or prear- ¨ ranged lines of CR) can function as a substitute for risk management in mitigating CR rationing.

The key prediction from the CR rationing model of risk management is that firms are more likely to hedge if they face CR rationing. Given that the importance of risk management as an instrument to mitigate financial constraints is related to a firm's need to fund future investments, in our empirical tests, we control for investment prospects. We also control for whether firms have access to liquidity (cash, profits, and CR lines) because, as discussed, theory predicts that liquidity can be a substitute for risk management in mitigating CR rationing.

Breeden and Viswanathan (2016), DeMarzo and Duffie (1991, 1995), and Raposo (1997) argue that when it is difficult for noncontrolling shareholders to assess the quality of management, higher quality managers hedge to mitigate the effect of external factors on the firm's performance and, in this way, separate themselves from lower quality managers. Lower quality managers cannot mimic this strategy as setting up a hedging program is costly. The primary prediction from this signaling argument is that firms are more likely to install a risk management program when information asymmetry is high.

In Smith and Stulz (1985), firms issue debt to generate tax shields. However, debt also increases the probability that a firm will face financial distress and file for bankruptcy. In this framework, hedging can increase firm value by reducing the losses of bankruptcy. The key prediction from this financial distress model of risk management is that firms are more likely to hedge when the risk of financial distress is high.

In the agency models of risk management (Smith and Stulz, 1985; Holmstrom and Ricart i ¨ Costa, 1986), the interests of risk-averse managers are not aligned with the interests of welldiversified risk neutral shareholders. In this framework, risk-averse managers can mitigate the effect of their exposure to the firm by hedging, even if this decision is not optimal for risk-neutral shareholders. To assess whether a manager's exposure to her firm affect risk management, in our regressions we control for the extent in which the executive is compensated with equity.

There is general recognition in the literature that risk management should be directed at minimizing losses within the organization whilst simultaneously maximizing its value. As noted by Fadun (2013), risk management is a process which deals with risks in a manner which minimizes the threats or lower tail outcomes of risk and maximizes opportunities or upper tail outcomes. Similar views on risk management were provided by Banks (2012) who believes that truly successful companies will be those with the ability to properly manage their exposures in order to achieve maximization of values and minimization of costs; and Dionne (2013) who opines that risk management is a set of financial or operational activities which maximizes firm or portfolio value through reductions in costs associated with cash flow variability. It is well accepted in the literature that there is a positive relationship between risk management practices and performance of firms, that is, good risk management enhances the financial performance of firms.

Many reasons have been identified for the beneficial impact on firm performance. First, Stulz (1996) contends that good risk management practices lead to the elimination of costly lower-tail outcomes and reduce the costs of bankruptcy which follows a prolonged period of financial distress. These bankruptcy costs include direct administration costs, the reduced expected present value of the firm, decreases in efficiency due to lowered employee morale, expected difficulties when operations are resumed and less focus on more profitable company areas due to the monopolization of management's attention on rectifying the bankruptcy issues immediately (Stulz, 1996; Ramos, 2000).

Further, firms experiencing financial distress are likely to lose the support of customers, suppliers and investors, with a consequential negative impact on profitability. Second, risk management can add value through the prevention of the corporate underinvestment problem.

A potentially significant cost of financial distress stems from the tendency of financially troubled firms to scale back on or delay new investments to preserve limited internal funds. Such firms also experience grave difficulty in accessing external capital for investment purposes. Thus, firms can create value by establishing risk management programmers which guarantee they have adequate funds or access to capital for the implementation of value-enhancing projects (Servaes et al., 2009). Third, risk management helps an organization to meet its objectives, such as reduction in the volatility of cash flow, protection of earnings against fluctuations, and minimization of foreign exchange losses (Fatemi and Glaum, 2000). Schroeck (2002) proposes that ensuring best practices through efficient risk management result in increased earnings. Others have asserted that risk management reduces tax payments through the stabilizing effect on reported income and the convexity of the world's tax codes (Smith, 1995; Stulz, 1996). Finally, Culp (2002) highlights that risk management adds value through reductions of overinvestment, asset substitution monitoring cost and debt overhang.

2.2. Conceptual review

2.2.1. Banking Service

Economists define banks as financial intermediaries. A financial intermediary is an institution in the business of collecting money from savers and transferring it to borrowers. The money is collected by issuing liabilities to the money-saving public and loaned out against liabilities issued by borrowers; the financial intermediary thus becoming debtor to the first one and creditor to the latter ones. Banks would differ from other financial intermediaries such as mutual funds or insurance companies - only in the specific types of liabilities which they are able to issue and receive (Luis Angeles, 2019).

The bank is a financial institution which deals with debits and credits. It lends, accepts and deposits money, builds the gap between the lenders and the borrowers. Banks are not only dealing with money but are also producers of money (Vetrova T.2017).

A bank is a financial intermediary and creates money by lending money to a borrower, thereby creating a corresponding deposit on the bank's balance sheet. A banking system is a group or network of institutions that provide financial services to the society. These institutions are responsible for operating a payment system, providing loans, taking deposits, and helping with investments. Lending activities can be performed directly by loaning or indirectly through capital markets. After the advent of technology and its penetration to all business fields, the responsibility of banks is enhanced to provide better, speedy, and ubiquitous service to the customers so that it can create more money and hence profit. Banking business includes the business of receiving money on current or deposit account, paying and collecting cheques drawn by or paid in by customers, the making of advances to customers, and includes such other business as the Authority may prescribe for the purposes of Banking Act of the country. Banking business includes: receiving from the general public money on current, deposit, savings or other similar accounts repayable on demand or within certain days or with a period of call or notice of less than that period; and paying or collecting cheques drawn by or paid in by customers (SreeramanaAithal 2016).

Automation of banking processes is present day requirement and networking all the branches of the banks through Information communication technology is essential for decreasing the cost of the operation. Since banking functions involve the transaction of money between different accounts and due to advents of electronic commerce which need electronic money transactions and payments between different parties, security and authenticity are very important features of present banking operations (Aithal P., 2016). In general, Banks have come all the way from temples to current world with no change in the basic business practice that is to pro-vide loans to one who needs and protect depositor's money. The development of the economy of the country is through all the sections of the society but due to the illiteracy and un-awareness of technology usage the growth of economy is lagging (Mala M. and Vasanthi G.2016)

A bank's job is to provide customers with financial services that help people better manage their lives. As technology advances and competition increases, banks are offering different types of services to stay current and attract customers. Some of them are listed below:

Advancing of Loans: Banks are profit-oriented business organizations. So they have to advance a loan to the public and generate interest from them as profit. After keeping certain cash reserves, banks provide short-term, medium-term and long-term loans to needy borrowers.

Overdraft: Sometimes: the bank provides overdraft facilities to its customers through which they are allowed to withdraw more than their deposits.

Discounting of Bills of Exchange: This is another popular type of lending by modern banks. Through this method, a holder of a bill of exchange can get it discounted by the bank, in a bill of exchange, the debtor accepts the bill drawn upon him by the creditor *(i.e.,* holder of the bill) and agrees to pay the amount mentioned on maturity.

Check/Cheque Payment: Banks provide cheque pads to the account holders. Account holders can draw cheque upon the bank to pay money.Banks pay for cheques of customers after formal verification and official procedures.

Collection and Payment of Credit Instruments: In modern business, different types of credit instruments such as the bill of exchange, promissory notes, cheques etc. are used.Banks deal with such instruments. Modern banks collect and pay different types of credit instruments as the representative of the customers.

In addition to the above the bank provide services like Foreign Currency Exchange, Consultancy, Bank Guarantee, Remittance of Funds, Credit cards, ATMs Services, Debit cards, Home banking, Online banking, Mobile Banking, Accepting Deposit, Priority banking and Private banking.

2.2.2. Risk in Banking

The term Risk in banking has extensively been probed by different investigators (Bessis, 2002; Schroeck, 2002; Gallati, 2003; Fayyaz, 2006; Ghosh, 2012; Rahman, Abdullah and Ahmad, 2012) in recent years and does not have a universal definition. Different authors apply diverse approaches to describe the scope of this term. Risk in banking refers to an exposure to unpredictability of the outcome that contains a probability of variation in the desired or expected returns (Gallati, 2003; Fayyaz, 2006; Rahman, Abdullah and Ahmad, 2012). 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.

Risk is all about uncertainty. That is inability to precisely determine what will occur in the future, as future is full of uncertain. With regard to what is a risk Osborne (2012) has claimed that, what we all are talking about is a future problem- or, indeed, opportunity – or the potential future effect of a decision or an action that we take now. And every decision we make or action we take contains some element of risk. “Whatever can go wrong will go wrong” (Murphy’s Law) the implication of risk is that, something that we could not expect could happen and it will lead to huge losses. And, of course, risk is a state of nature as every walk of life is surrounded by a certain level of risk. However, it can’t be generalized that risk only leads to cost (loss) but could also involve an opportunity (reward) if it is dealt with wisely as like in the case of undertaking business activities.

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

The available literature describes different types of banking risks including: Several research studies Santomero (1997),Bessis (2002),Crouhy, Galai and Mark (2006),Abu Hussain and Al-

Ajmi (2012),Santomero (1997),Bessis (2002), Basel Committee (2013) and Crouhy, Galai and Mark (2006) find that banks face credit risk, liquidity risk, operational risk, legal risk, regulatory risk, reputation risk, strategic risk, solvency risk, and interest rate risk, rate of return risk, settlement risk, concentration risk, price (equity) risk, foreign-exchange risk, country (political) risk and residual risk with varying degrees of exposures.

Banks are a special type of enterprises in the economy, and their specificity is clearly visible in the area of risk. The level of risk in the operations of banks is much higher than in other industries, which is mainly due to high financial leverage, which is the most recognizable feature of banks' balance sheets. Banks operate virtually exclusively on the basis of funds borrowed from customers, which they are obliged to return at their request, despite the existence of contractual maturities. This generates the entire spectrum of liquidity risk and market risk types. On the other hand, borrowed funds are invested in loans in which various types of credit risks are embedded that do not exist in other industries. In addition, banks generate systemic risk, in which the collapse of one of them causes an increased probability of the collapse of others, and the collapse of several banks (especially large ones) may disturb the functioning of the entire economy. Therefore, it is in the vital interest not only of banks, but also of other enterprises and private persons to ensure the proper functioning of the bank risk management system and to limit its occurrence in banks.

As with other risk categories, there are many definitions of banking risk and many types of this risk. Drozdowska and T. Cicirko. M. IwaniczDrozdowska defines banking risk as a threat of failure to achieve goals set by the bank, for example, optimizing profit and ensuring operational safety. This risk is tantamount to the probability of events adversely affecting the bank's situation and prospects for its development (Iwanicz-Drozdowska, 2005). According to T. Cicirko, banking risk is the measured uncertainty that has financial consequences as a result of actions taken by the bank to generate a satisfactory result, while maintaining the expected level of security and liquidity (Cicirko, 2012).Undoubtedly, it is difficult to develop a universal, commonly recognized definition of banking risk. However, it seems that the broad definition, which understands banking risk as all types of risk identified in the bank's operations, is more useful. Such a defining attempt, using the risk structure, makes it necessary to first define the types of banking risk.

Based on different scholars there are many types of risk in the bank that challenges the growth and development of the industry; some of them are credit risk, operational risk, legal and regulatory risk, liquidity risk, market risk, interest rate risk, counterparty risk, country (political) risk, equity or commodity price risk, reputation risk, strategic risk, technology risk, off-balance sheet risk and solvency risk.

According to Bessis, J. (2002) many banking risks arise from the common cause of mismatching. If banks had perfectly matched assets and liabilities (i.e. identical maturities, interest rate conditions and currencies), then the most risk faced by a bank would be credit risk.Credit risk is the most obvious risk in banking, and possibly the most important in terms of potential losses. The default of a small number of key customers could generate very large losses and in an extreme case could lead to a bank becoming insolvent. This risk relates to the possibility that loans will not be paid or that investments will deteriorate in quality or go into default with consequent loss to the bank (Matthews, K. 2008).This sort of matching, however, would be virtually impossible, and in any event would severely limit the banks' profit opportunities. Mismatching is an essential feature of banking business. As soon as maturities on assets exceed those of liabilities then liquidity risk arises. When interest rate terms on items on either side of the balance sheet differ, then interest rate risk arises. Sovereign risk appears if the international nature of each side of the balance sheet is not country-matched. Many of these risks are interrelated.

From the foregoing, it is obvious that banking institutions face a variety of risks that may influence their survival and success. Therefore, it is necessary for banks to comprehend with the concept of risk management in order to deal with different potential risks (Stan-Maduka, 2010). The researcher also tries to assess which risks are affecting Abay bank throughout its development of journey.

2.2.3. Risk Management

Taking risks can almost be said to be the business of bank management. Financial institutions that are run on the principle of avoiding all risks will be stagnant and will not adequately service the legitimate credit needs of the community. On the other hand, a bank that takes excessive risks is likely to run into difficulty.

Risk management is a very important process for any bank. The methodical and informational risk management support significantly differs depending on the degree of bank development. This is so because, firstly, the banking risks – credit, market, operational – differ in their nature and require specific data for their evaluation, and secondly, risk management information support depends on the banking analytical system (Poliakov, 2011).The main direction of banking risk management improvement is the methodological framework development for risk assessment and banking information systems. This process should take into account the new regulatory and technological requirements regarding the implementation of financial and risk management integrated approach.

Risk management is the entire process of policies, procedures and systems an institution needs to manage prudently all the risks resulting from its financial transactions, and to ensure that they are within the bank's risk appetite. In some organizations, risk management work is carried out by independent risk management units rather than specially-named risk control sections.

As of Osborne (2012) risk management is a central part of any organization's strategic management. It is the process whereby organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. The focus of good risk management is the identification and treatment of these risks. Its objective is to add maximum sustainable value to all the activities of the organization. It marshals the understanding of the potential upside and downside of all those factors which can affect the organization. It increases the probability of success, and reduces both the probability of failure and the uncertainty of achieving the organization's overall objectives.

Risk management is viewed as a corner stone of good corporate governance and therefore results in better service delivery, more efficient and effective use of scarce resources and better project management (Collier et al., 2007). It has to do with identification, analysis and control of such risks that threaten resources, assets, personnel and the earning capacity of a company. According to Dorfman (2007), risk management is the logical development and implementation of a plan to deal with potential losses. Dorfman continues to say that risk management is a strategy of pre-loss planning for pre-loss resources. One example of an integrated solution to risk management is enterprise risk management.

Furthermore, he has stated that, many risks are seen as having purely negative consequences and for this reason it's not uncommon for those involved in risk management to take a pessimistic view of a risk. But we shouldn't forget that many risks also have positive consequences. Effective risk management can help us to reduce the negative and increase the positive consequences of risk, thus helping our business to grow and flourish. Risk management covers three main aspects; namely risk identification, risk measurement and risk mitigation. It has a huge impact on organizations objective accomplishment. To be successful, business organizations need to undertake risk management process so as to identify, measure and manage their inherent risks. Particularly, risk management is said to be a cornerstone of prudent banking practice.

In line with the above description Schmit and Roth (1990) also 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.

Therefore, risk management and its techniques help in improving banks financial and operational performance. In addition, risk management depending on its techniques and tools underlines the fact that the success of company depends heavily on its ability to predict and plan for change, rather than just waiting and reacting to change.

2.3. Empirical Litrature Review

Al-Khouri (2011) examined the impact of overall banking environment on the performance of 43 commercial banks operating in 6 of the Gulf Cooperation Council countries over the period 1998-2008. He found that credit risk, liquidity risk and capital risk are the major factors that affect bank performance when profitability is measured by return on assets while the only risk that affects profitability when measured by return on equity is liquidity risk.

Kargi (2011) studied the impact of credit risk on the profitability of Nigerian banks. Financial ratios as measures of bank performance and credit risk were collected from the annual reports and accounts of sampled banks from 2004-2008. The findings revealed that credit risk management has a significant impact on the profitability of Nigerian banks inversely influenced by the levels of loans and advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress.

Adeusi and Akeke, (2013) examined risk management practices and bank financial performance in Nigeria. Panel data was used. Financial performance of banks and doubt loans, capital asset ratio and managed fund was found to be positive and significant.

Oluwafemiet. al, (2013) examined the association of risk management practices and bank financial performance in Nigeria. Secondary data of 4years annual reports of 10 banks used. The result implies cost of bad loan was found to be a negative but significant influence of bank performance.

Gathigia (2016) examined the effect of financial risk on financial performance of commercial banks in Kenya. The quantitative research design was adopted in the study. The target population of this study was the 43 commercial banks. Panel data was used and secondary data was obtained from published financial statements for ten years from 2005 to 2014. Researcher found that credit, market, liquidity and operational risks have significant negative effect on return on equity. The component of financial risk that had the most impact on financial performance was cost to income ratio, i.e. operational risk. Despite, researcher looked at major risks impact on financial performance of commercial banks, but we have some context difference that needs to be customized as per Ethiopian context, particularly financial liberalization aspect. Worku (2006), conducted the study on the impact of liquidity risk on the performance of commercial banks of Ethiopia. He argued that liquidity has an impact on the performance of commercial banks in Ethiopia and there was an inverse relation between deposit/net loan and ROE. And the coefficient of liquid asset to total asset was positive and directly related with ROE. In addition, the study also found that the capital adequacy of all banks in Ethiopia were above threshold, means there was sufficient capital that can cover the risk-weighted assets. Depositors who deposit their money in all banks were safe because all the studied banks fulfilled NBE requirement.

Similarly, Tseganesh (2012), conducted the study on the determinants of banks liquidity and their impact on financial performance. The study used balanced fixed effect panel regression model with eight commercial banks in the sample covered the period from 2000 to 2011. The result of the study revealed that, liquidity capital adequacy and bank size had positive impact on financial performance whereas, non-performing loans and short-term interest rate had negative impact on financial performance. Interest rate margin and inflation had negative but statistically insignificant impact on financial performance.

Shibiru and Mebratu (2017) assessed the impact of credit risk management on the performance of six private commercial banks in Ethiopia for a 14 period (2000 to 2013). The data were collected from audited financial statement and National Bank of Ethiopia. The collected data were analyzed by using panel data regression model and the result showed capital adequacy ratio, total loan ratio, nonperforming ratio, bank size and liquidity ratio have a significant impact on the performance (ROA and ROE). Though, the study attempted to examine credit risk from different perspective, it was limited to credit risk only instead of inculcating other risks and it missed government commercial bank which has lion share in the market.

2.3.1. Risk Management and Banks Financial Performance

A major objective of bank management is to increase shareholders' return epitomizing bank performance. The objective often comes at the cost of increasing risk. The bank's motivation for risk management comes from those risks which can lead to bank underperformance. Issues of risk management in banking sector have greater impact not only on the bank but also on the economic growth (Tandelilin et al, 2007). Tai (2004) concludes that some empirical evidence indicates that the past return shocks emanating from banking sector have significant impact not only on the volatilities of foreign exchange and aggregate stock markets, but also on their prices, suggesting that bank can be a major source of contagion during the crisis.

Banks which better implement the risk management may have some advantages: (i) It is in line with obedience function toward the rule; (ii) It increases their reputation and opportunity to attract more wide customers in building their portfolio of fund resources; (iii) It increases their efficiency and profitability. Cebenoyan and Strahan (2004) find evidence that banks which have advanced in risk management have greater credit availability, rather than reduced risk in the banking system. The greater credit availability leads to the opportunity to increase the productive assets and bank’s profit.

2.3.2. Risk Management Challenges

It has been established that risk management is a challenging task for institutions, especially the financial ones (Feridun, 2006). Banks and other financial organizations are faced with the need to continually develop and improve both operational and technical practices. It is also a fact that management of credit risk is assuming a greater significance in the modern environment. There is a trend with in the banking industry towards a quantitative evaluation of their loan portfolios risk. Previously, it is market risks that had gained prominence in terms of quantitative risk management, but this has been gradually overtaken by credit risk management. Quantitative risk management has posed several challenges, as well as opportunities for personnel.

These challenges include both quantitative problems modeling and change management issues (Feridun, 2006).Liquidity risk management challenges facing the financial institutions became clearer during and after the financial crisis (Bank of Japan, 2010). First, the institutions have to gauge their liquidity risk profiles, considering the characteristics of things such as their business and the funding measures. More so, these institutions need to establish a risk management system that is institution-specific. This ought to be accorded priority especially for the institutions with no stable funding. Secondly, the institutions are needed to strengthen their resilience or flexibility in a liquidity stress phase. Thirdly, there are financial institutions that operate around the world, they are faced with a particular challenge of managing risks both locally and internationally.

These institutions are required to enhance their management system of liquidity risk on a global basis. Another challenges explored about the financial institutions is the fact that the institutions are facing an increased exposure to risk. This arises from the willingness of said institutions to take on greater risks. These institutions are growing in complexity, and managing this complexity is becoming a big challenge for the firms. It is a fact that complexity exposes them to greater risk. Management boards paying excess attention to risk are yet another challenge; this can be seen to undermine the other operations of these firms.

The risk management function finds it hard to increase its authority, which is a real challenge; the lesser the authority, the lesser the effectiveness of the risk management personnel and departments. Sabau (2013) explores new challenges facing the risk management in the financial institutions and highlights some challenges (like globalization and its association with the banks' exposure to risk). Batlin and Schachter (2000) come up with several challenges that affect risk management. They categorize them into three: application of risk management, risk types, and risk measurement implementation issues.

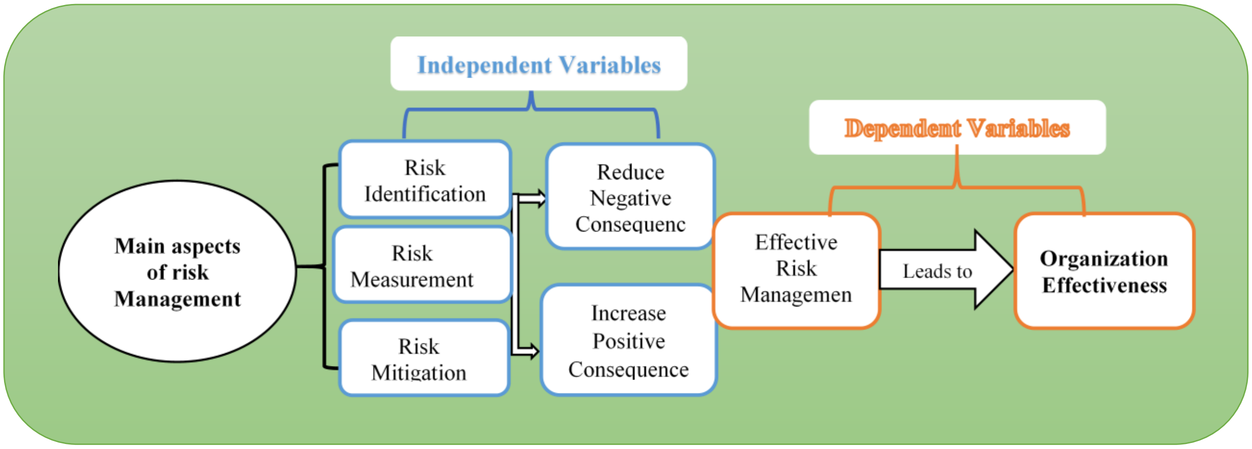
Endaweke (2015) investigated the impact of risk management on bank performance on the Ethiopian bank performance. Balanced fixed effect panel regression was used for the data of eight commercial banks from 2002 to 2013. Four risks were seen as independent variables that affects banks performance were used and analyzed. The results of panel data regression showed that credit risk indicator (NPLR), Liquidity risk indicator (LIQR) and operational risk indicator (CIR) had negative and statistically significant impact on banks performance. Despite his approach is more pragmatic, but he was missed market risks impact assessment on banks performance. Although, various studies have been conducted so far in the field of risk management, but the main focuses of those studies were on credit risk and there was little work have been done on other risks, particularly most of the studies missed market risks. Secondly, new empirical testing to the debate is required due to in consistent findings.

Hence, there are some limitation in literature and requires enhancement on the underlying impact of risk management practices, particularly in Abay bank context. Hence, this study aims to fill those gaps in the literature by focusing on the risk management practices in Abay bank and linking the practices with the financial performance of the bank.

2.4. Conceptual Framework

The conceptual framework below deals with the main aspects of risk management in the bank and its consequence on organizational effectiveness. The independent variables those risk identification, risk measurement, and risk mitigation will implement in a good manner; the positive consequence will increase and the negative will be decreased. If increasing the positive and decreasing the negative consequence it means that the bank implementsan effective risk management system. The result of the implementation of effective risk management in the bank leads to organizational performance and profitability.

Figure 1. Conceptual framework



Source: after reading different literature (2021)

CHAPTER THREE

3. RESEARCH METHODOLOGY

This chapter presents the methodology employed during the study. This chapter provides explanations on research design and approach, the population, sample and sampling procedures, data collection methods used during data collection are provided. Explanations are also provided on how instruments were validated and how data were collected and analyzed.

3.1. Research Approach

According to Frascati Manual (2015), the qualitative approach involves studies that do not attempt to quantify measurements and includes techniques like interviews and observations without formal measurement. It involves understanding human behavior by asking a broad question, collecting data in the form of words, images, videos, etc. that is analyzed, and searching for themes. On the other hand, the quantitative approach uses quantitative results through statistical summary or analysis. It involves a systematic empirical investigation of quantitative properties and phenomena and their relationships by asking a narrow question and collecting numerical data to analyze it utilizing statistical methods. Taking the advantages of qualitative and quantitative research approaches into account, the blend of the two (mixed research methods)was used for this study.

3.2. Research Design

Research design gives the overall outline of the research and it provides a framework for the collection and conceptual structure within which research is conducted and includes the collection and analysis of data that are relevant to the research (Kothari, 2004). It is the plan showing the approach and strategy of investigation chosen to obtain valid and reliable data that achieved the research objectives and answered research questions. The researcher used a mix of quantitative and qualitative research designs.

Creswell (2003) claims that mixed design is less well known than either the quantitative or qualitative strategies or it involves collecting and analyzing both forms of data in a single study. He also argued that all methods have limitations and hence researchers felt that biases inherent in any single method could neutralize or cancel the biases of other methods. Therefore, mixed design triangulates data sources to get reliable results.

The researcher used a descriptive research design. This approach is used to ascertain and be able to describe the characteristics of variables of interest in the situation. The descriptive survey has an advantage in describing in detail and it is best in analyzing the problems. So this design is found to be very essential for this study because it helps to clarify the points discussed.

3.3. Target Population

sample for this study includesAbay Bank Head Managers, Risk Managers, and employees. From Abay Bank Head Office 5 top managers and 129 employees,a total of 134 participants wereinvolved in this study.

Table 1. *Summary of Sample Survey*

No	Data collected from	Research Tools	Sample Size
1	Management staff of the bank	Interview	5
3	Employees	Questioner	129
		Total	**134**

Source own survey, May, 2021

3.4. Sampling Technique& Sample size

Howsamples are selected is critical. In this study, the researcherused non-probability sampling which is purposive sampling. The purposive sampling technique also called judgment or deliberate sampling is the deliberate choice of a participant due to the qualities the participant possesses. In this technique, sampling units are selected according to the purpose. Research Methodology (2017), define purposive sampling as a sampling technique in which the researcher relies on his or her judgment when choosing members of the population to participate in the study. Researchers often believe that they can obtain a representative sample by using sound judgment, which results in saved time and money. The researcher purposively selected Abay bank managers, risk managers, and employees.

The research purposively select 5 managers from head office, and 129 employees based on their working experience.more experienced employees were selected because they have more knowledge about their working environment.

3.5. Data Type and Sources

In conducting the study, the researcher used both primary and secondary data collection techniques. These techniques were used by the researcher to get data on risk management practice in Abay bank. The primary data was collected from Abay bank head office managers, and employees through in-depth interviewees,and questionnairesrespectively.

3.6. Data Collection Methods

To conduct this research and collect the required data, both primary and secondary sources of data were used. Secondary data was collected from both published and unpublished books, documents, and manuals from the bank. On the other hand, primary data wascollected through questioners and interviews.

3.6.1. Questionnaire

A questionnaire is defined as a document containing questions and other types of items designed to solicit information appropriate to analysis (Babbie, 1990). A questionnaire is equally used in survey research, experiments, and other modes of observation. A questionnaire should allow us to collect the most complete and accurate data in a logical flow. In this study, structured questionnaireswere used to draw informatization from selected employees (129) who were deliberately selectedfrom the Bank.

3.6.2. Interview

According to Kvale (1996), an interview is “a conversation, whose purpose is to gather descriptions of the life-world of the interviewee” concerningthe interpretation of the meanings of the ‘described phenomena’. The researcher employed both key informants and in-depth interviews with the selected informants from the bank. The interview focused on the issues of the bank’s risk management practices, challenges of implementation, and the role of risk management practice in the performance of the bank.

3.7. Methods of Data Analysis

This section discussed the process of analyzing the data once it was collected, transcribed, and coded. To achieve the objectives of the study data was analyzed through qualitative and quantitative approaches. Quantitative data wereanalyzed using the descriptive technique. The data gathered using questioners are arrangedfirst in tables and changed into frequency and percentage. The percentage is dominantly employed since it is used to assess and analyze the respondent's profile, opinions, and assumptions. In addition, the information gathered from different resourcesis compiled in a way that is easy to manage. Following the completion of data collection, the survey informationwas coded and entered into a statistical package for Social Science (SPSS) of 22.0 version analyses. The result wasanalyzed, interpreted, and discussed using descriptive statistics (frequency, percentage).

Similarly, qualitative data obtained using in-depth and key informant interviewswereanalyzed thematically. Thematic analysis is a method used for identifying, analyzing, and reporting patterns (themes) within the data. The thematic analysis used open coding to help better analyze the qualitative data gathered through interviews. The reason to choose this method was based on the belief that a ‘thematic approach can produce an insightful analysis that answers particular research questions’ (Braun and Clarke, 2006). Thematic analysis functioned as the main research analysis method for this study, which described and reported on experiences, meanings, and reality of participants. This helps the researcher to draw some inferences or to make some generalizations from the collected data.

3.8. Validity and Reliability

Reliability and Validity are important concepts in research as they are used for enhancing the accuracy of the assessment and evaluation of research work (Tavakol and Dennick, 2011). Reliability refers to the consistency, stability, and repeatability of results i.e. the result of a researcher is considered reliable if consistent results have been obtained in identical situations but different circumstances. It refers to the repeatability of findings. If the study were to be done a second time, would it yield the same results? If so, the data are reliable. Consequently, if more than one person is observing behavior or some event, all observers should agree on what is being recorded to claim that the data are reliable. Therefore, the researcher attempt to assure the reliability of the work through cross-trial works like using different interviewers in the same field to crosscheck the similarity of data collected.

A reliable test will produce consistent results when the same individual is tested on different occasions (Belbin 2013:11). This study increased reliability by pre-testing the questionnaires. Cornbrash's alpha test was run to measure the internal consistency of the first data collection instrument. The instructions in the questionnaires were made clear enough to direct the respondents. Bias was also minimized by using a self-administered questionnaire. Therefore, the alpha value gained from the reliability test is as follows:

Table 2. Reliability Statistics-Pilot test

Number of valid case	**Cronbach's Alpha**	**Number of scale Items**
10	.806	21

Item total statistics

Items	Mean	Std. deviation	N
1	2.15	1.077	10
2	2.8	1.119	10
3	2.2	.951	10
4	2.1	.913	10
5	2.31	.944	10
6	2.21	.948	10
7	2.7	1.106	10
8	2.63	1.038	10
9	2.50	.986	10
10	2.2	.951	10
11	2.13	.918	10
12	2.15	.922	10
13	2.33	1.002	10
14	2.70	1.128	10
15	2.8	1.119	10
16	2.8	1.109	10
17	2.71	1.108	10
18	2.2	.951	10
19	2.1	.913	10
20	2.1	.913	10
21	2.30	.968	10

Items	Scale mean if item deleted	Scale variance if item deleted	Coorelated item total coorelation	Squared multiple coorelation	Cronbach's alpha if item deleted
1	19.16	22.277	.615	.471	.775
2	18.51	21.747	.641	.457	.771
3	19.03	24.696	.431	.339	.802
4	18.21	23.821	.722	.301	.773
5	19.00	24.182	.544	.315	.788
6	18.46	23.402	.555	.339	.785
7	18.53	23.060	.534	.330	.788
8	18.81	21.630	.688	.499	.764
9	19.63	24.826	.531	.339	.725
10	18.42	23.301	.733	.328	.810
11	18.62	21.321	.678	.441	.776
12	19.11	24.356	.622	.477	.733
13	18.33	21.721	.674	.390	.766
14	19.14	24.633	.547	.316	.774
15	19.03	24.696	.431	.339	.802
16	18.55	21.571	.669	.372	.784
17	18.72	23.996	.536	.305	.725
18	19.17	24.280	.554	.442	.733
19	19.26	24.555	.736	.388	.813
20	18.81	21.630	.688	.499	.764
21	19.14	24.424	.548	.308	.771

Source: SPSS Data 2021

Validity is the extent to which any measuring instrument measures what it is intended to measure. The primary purpose of validity is therefore to increase the accuracy and usefulness of findings by eliminating or controlling other conditions, which allows for greater confidence in the findings of a given study. The research advisor has also approaved this instrument as valid.

3.9. Ethical Considerations

Research ethics is important in our daily life research endeavors and requires that researchers should protect the dignity of their subjects and publish well the information that is researched (Fouka and Mantzorou, 2011). Research ethics serves to protect the right so participants and ensure they are not exposed to unnecessary harm, and ensure that methodological approaches are appropriate to the study aims. The main role of human participants in research is to serve as sources of data. Researchers have to ‘protect the life, health, dignity, integrity, right to self-determination, privacy and confidentiality of personal information of research subjects.

CHAPTER FOUR

4. Data Presentation, Analysis, and Interpretation

This chapter deals with the analysis, discussion, and interpretation of data collected during the study. The analysis is mainly based on primary data which were collected through the questionnaire filled by 129 respondents, 5 interviews from concerned officials, and secondary data. The data has been analyzed with references to the objectives of the study as mentioned in the first chapter. The data are presented with tables and diagrams to make them convenient to interpret.

4.1. Demographic Profile

This section contains the demographic profile of respondents who were involved in this study. Their gender, age, and educational attainment, briefly presented and analyzed under this section. The questionnaire was distributed to 129 employees of Abay Bank who were purposively selected because of their experience and 5 interviews with concerned officials in Abay bank from the head office. Out of the 129 questionnaires, all valid responses were collected.

4.1.1. Sex Distribution

Sex is one of the important variables in each social situation or activity which can affect and be affected by the social or economic phenomenon. The frequency and percentage of the gender of the respondents are depicted below in the figure.

Table 3. Sex distribution

		Frequency	Percent
	Male	78	58.2
	Female	56	41.8
	Total	134	100.0

Source own survey, May 2021

The above table shows the sex distribution of respondents. It revealed that male respondents are relatively higher in number than female respondents in the sample size of 129. The percentage of male and female respondents was 58.2 % and 41.8% respectively. This can show that the number of male staff in the bank is higher than female counterparts.

4.1.2. Age Distribution of Respondents

Age is another important parameter that required attention in the analysis of data. Age indicates the level of maturity of individuals which often is directly related to the understanding of responsibilities including risk management. Below in the figure,the age distribution of respondents is presented.

Table 4. Age distribution

	Frequency	Percent
20-30	41	30.59
31-40	64	47.7
41-50	19	14.2
above 50	10	7.5
Total	134	100.0

Source own survey, May, 2021

As shown above, in the table, the majority of respondents belong to the age group of 31-40 years consisting of 47.7% of the total respondents. In addition to this, 30.5% of respondents were of age group between 20-30 years, 14.2% of respondents were of age group 41-50 years, and 2.6% respondents were of age group 18-24, while the remaining 2.6% of respondents are above the age of 55. This can tell that the bank is dominated by an age group of employees who are in their active age of working with better knowhow of risks, its consequence, and the need for risk management.

4.1.3. Educational Status of respondents

An individual's way of perceiving any phenomena and his/her attitude can be affected or influenced by Education. An Individual's educational status is more likely going to impact the response of the study participant. Hence the researcher finds it important to know the level of respondent's educational attainment. Data concerning education is presented below in the table.

Table 5. Educational status of respondents

		Frequency	Percent
	Degree	99	73.9
	Masters	32	23.8
	Ph.D. and above	3	2.2
	Total	134	100.0

Source own survey, May 2021

As shown above, in the table all the respondents are educated. When 99 (73.9%) of respondents hold their first degree the rest 32 (23.8%) have their master's degree &3 (2.2%) hold Ph.D.& above. It is, therefore; fair to say that all study participants are educated and may have a good level of understanding about risk management and its practice in their bank.

4.2. Risk management practices in 'Abay' bank

While banks are providing financial services, they are also acting as a "middleman" in the transactions, but this role is causing various kinds of risks to the banks. Risk-taking is an inherent element of banking and, indeed, profits are in part the reward for successful risk-taking. On the contrary, excessive, poorly managed risk can lead to distresses and failures of banks. Risks are, therefore, warranted when they are understandable, measurable, controllable and within a bank's capacity to withstand adverse results, National Bank of Ethiopia (May 2010).

According to the economic theory, core management principles are aimed at maximizing the shareholders' wealth and this principle should also maximize the expected profit from their business. If there are any losses from the activities harming the core principles and if the risks that occur in the business are not managed appropriately, it could directly impact the bank's profitability and soundness. Hence, there should be a clear risk management system in banks to mitigate risks associated with the business.

In a one-to-one interview with the manager, he affirmed that their bank (Abay) has a well-established risk management system. The bank believed in the importance of having risk management practices in banking. Hence, the bank properly implements a risk management process to evaluate the potential losses for the banks in the future and to take precautions to deal with these potential problems when they occur.

The head of the Risk department in Abay bank in his speech said that:

> *Beginning from the day of its establishment our bank implemented risk management activities and we have departments exclusively formed to deal with risks facing the bank. Therefore, we Identify and assess the potential risk that might face our bank, we Develop and execute an action plan to deal with and manage these activities that incur potential losses, and, most importantly we Continuously review and report the risk management practices after they have been put into action/operation.(Male, 45, M.A in Marketing and Business Management, June 2021).*

4.2.1. Possession of a documented risk management guideline or policy in 'Abay' bank

Having a documented risk management policy and guideline can help financial institutions like Abay bank to provide guidance regarding the management of risk to support the achievement of the bank's objectives, protect staff and business assets and ensure financial sustainability. Survey participants were asked to show their level of agreement concerning the prevalence of documented risk management guidelines or policies. The following table compiled results obtained from respondents.

Table 6. Possession of a documented risk management guideline

		Frequency	Percent
	Strongly agree	87	67.4
	Agree	40	31
	Neutral	2	1.5
	Total	129	100

Source own survey, May 2021

The table above depicted respondents' level of agreement on the availability of a documented risk management guideline in their bank. The majority 67.4% of respondents strongly agreed about the availability of a documented risk management policy/guideline. Similarly, 31% of respondents agreed. A relatively smaller number of participants (1.5%) preferred to remain neutral.

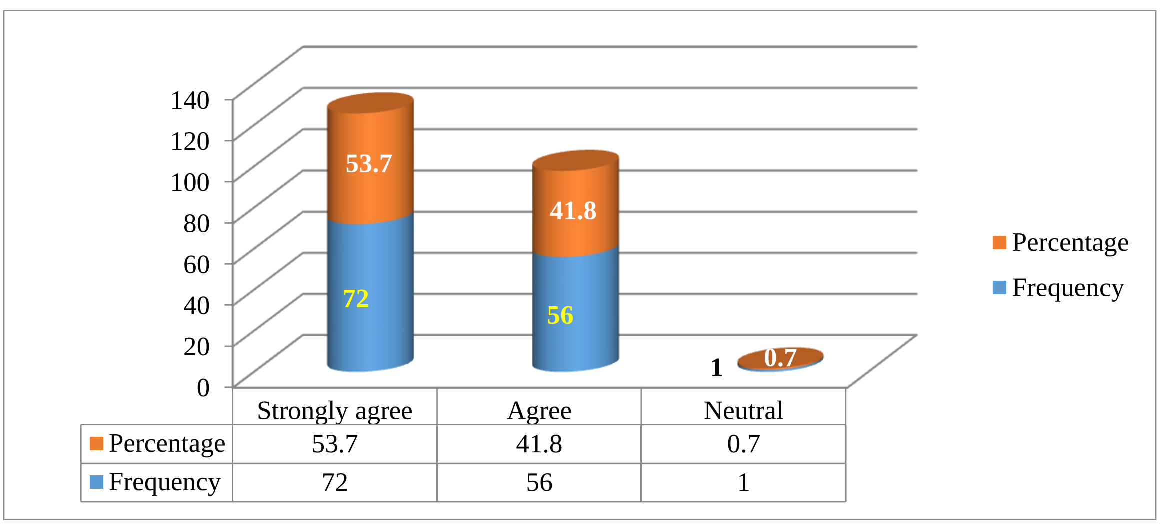
We can learn from the above finding that Abay bank has **a documented risk management guideline or policy.** Having such documents is expected to provide minimum risk management (risk identification, measurement, monitoring, and control) standards for Abay bank which is operating in Ethiopia. Guidelines are very important as it often covers the most common and interrelated risks facing banks in the country. The guidelines are thus expected to assist risk-based supervision and contribute towards the safety and soundness of the bank.

The data obtained from the interview also indicates that the bank has a documented risk management guideline or policy. When asked the managing director from the risk department he confirmed that their bank has a well-documented risk management guideline which is adopted from the National Bank of Ethiopia.

4.2.2. Conduct systematic identification of potential risks facing the bank

To manage risks, risks must first be identified. Almost every product and service offered by banks has a unique risk profile composed of multiple risks. Risk identification should be a continuing process and risk should be understood at both the transaction and portfolio levels. Survey participants were asked to show the level of their agreement on the availability of systematic identification of potential risks facing their bank. The following figure summarized their responses.

Figure 2. systematic identification of potential risks



Source own survey, May, 2021

As shown above, in the figure a slight majority of participants in the survey strongly agreed (53.7%) when asked if their bank conducts a systematic identification of potential risks facing it. Similarly, 41.8% of participants show their agreement concerning to the issue. Only a very smaller number among the participants prefer to remain neutral (0.7%).

The result tells us that Abay bank has established a systematic identification of potential risks facing the bank. A bank that aligns its growth with strong risk management practices supported by clear manuals& guidelines incorporated with the latest developments in the area can survive competition in the market as well as failures. A similar study from Pakistan by Ishtiaq, M (2015) argues that having a comprehensive risk management guideline system is not only a useful practice to meet the regulatory requirements but an effective exercise to improve the performance of the banks.

The interviewed informants were also asked 'What type of risks they are working to avoid. All interviewed gave similar answers saying they are mainly working on the most common financial & non-financial risks facing banks in the country, namely, credit, liquidity, market, and operational risks. This statement aligns with the result obtained from the quantitative data above in the figure. The bank established a systematic identification of potential risks and those risks are well identified.

4.2.3. The bank's culture of prioritizing its main risks

Once identifying potential risks, institutions such as banks are advised to priories its risks/risk appetite in accordance with the outcome/damage it might cause. In developing a risk appetite, management must analyze the Risk profile of the bank, Risk capacity (How much risk can the bank absorb),

Participants of the survey were asked to show the level of their agreement concerning to Abay bank's culture of prioritizing its main risks. Their response is summarized below in the table.

Table 7. prioritization of main risks

		Frequency	Percent
	Strongly agree	87	67.4
	Agree	41	31.7
	Neutral	1	.7
	Total	129	100

Source own survey, May, 2021

As clearly shown above in the table, the majority 67.4% strongly agreed & similarly 31.7% agreed. Only one respondent (0.7%) among the participants lean to stay neutral on the posed question.

The result reveals the availability of the culture of prioritizing main risks/risk appetite in Abay bank. According to ERM initiative, (2014) Such priorities enable the bank to better manage and understand its risk exposure, Help management make informed risk-based decisions, Help management allocate resources and understand risk/benefit trade-offs, Help improve transparency for investors, stakeholders, regulators, and credit rating agencies.

4.2.4. Sharing risk management systems experience of other competing banks in themarket.

Although there is no single risk management system that would fit all banks, however, at least they share the most common risks. Banks should have experience sharing programs with each other including risk management. Concerning to risk management system, banks can share experiences of other computing banks in areas of Risk Identification, Risk Measurement, Risk Control, Risk Monitoring and other important aspects. Accordingly survey participants were asked to show the level of their agreement if their bank shares risk management systems experience of other competing banks in the market. Below in the table, their response is summarized.

Table 8. sharing risk management systems with other banks

		Frequency	Percent
	strongly agree	72	55.8
	agree	51	39.5
	neutral	6	4.6
	Total	129	100

Source own survey, May, 2021

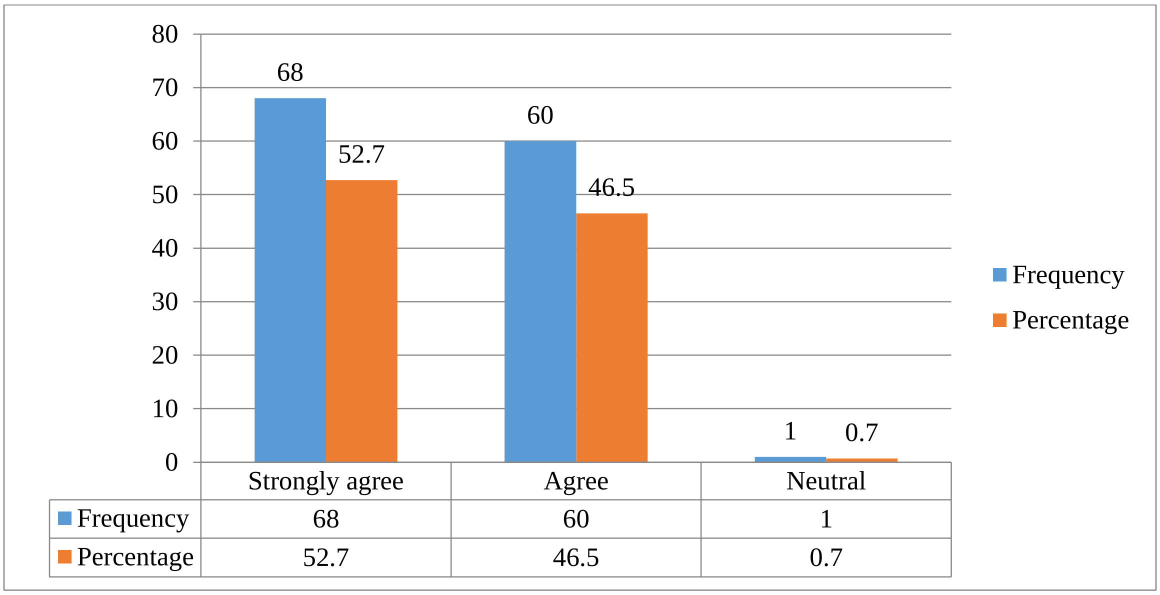
As portrayed above in the table, the majority of respondents 55.8% strongly agreed that the bank shares the risk management systems experience of other competing banks in the market. Accordingly, 39.5% of participants agreed with the notion. The remaining 4.6% of participants showed their neutral stance on the issue.

The finding clearly shows how the bank (Abay bank) is striving to learn from the experience of other banks working in the business. Sharing the experience of others can lead to better anticipate and mitigating risks that might cause damage to the productivity of the bank.

4.2.5. Assessing the possibility of occurring risks in this bank

Taking risks can almost be said to be the business of bank management. Financial institutions that are run on the principle of avoiding all risks will be stagnant and will not adequately service the legitimate credit needs of the community. On the other hand, a bank that takes excessive risks is likely to run into difficulty. Since risks are natural in the banking business it is wise to frequently assess the possibility of occurring risksin advance. The following figure presented survey participants' level of agreement on the issue presented.

Figure 3. the possibility of occurring risks



Source own survey, May, 2021

The figure above summarized the respondent's level of agreement about Abay bank's practice of frequently assessing the possibility of occurring risks. 52.7 % of participants strongly agree that their bank (Abay) engages in frequently assessing the possibility of occurring risks. Similarly, 46.5% of participants show their agreement when asked. The remaining 0.7% indicated their neutrality to the raised question.

We can learn from the result obtained & shown above that Abay bank is frequently assessing the possibility of occurring risks. A bank that is prepared for the worst in advance can plan and devise cop-up and mitigation mechanisms that later potentially reduce the damage that might arise from risks.

4.2.6. Using a computer-based support system to estimate the earnings and risk management variability

Organizations in this globalized world are advised to use computer-based support systems to run their business. Currently, it is difficult to imagine financial institutions such as banks running without the application of a computer-based support system. One area where this can be applied is in the process of risk management as it can help to support to estimate of the earnings and risk management variability in the bank. Hence, respondents were asked to rate the level of their agreement on the bank's use of a computer-based support system to estimate the earnings and risk management variability. The following table composed their responses.

Table 9. computer-based support system

		Frequency	Percent
	Strongly agree	70	54.2
	Agree	57	44.1
	Neutral	2	1.5
	Total	129	100

Source own survey, May, 2021

The above table shows the level of the respondents' agreement on the prevalence of a computer-based support system to estimate the earnings and risk management variability in the bank. The majority of the respondents 54.2% strongly agree that their bank has a computer-based support system to estimate the earnings and risk management variability in the bank. Accordingly, 44.1% show their agreement to the question raised and the rest 1.5% remained neutral.

Based on the data obtained it is possible to understand that using a computer-based support system to estimate the earnings and risk management variability is a well-implemented risk management approach in Abay bank. Many studies affirmed that information technology facilitates the automation of the processes starting from risk identification and ending with monitoring.

4.2.7. Using Quantitative & Qualitative analysis methods to assess risks

For risk management purposes, all financial institutions are advised to use qualitative and quantitative risk analysis. The goal of the assessment is to identify and describe the risk(s) associated with a decision problem and to analyze the potential impacts of the risk.Respondents were asked to indicate their level of agreement whether their bank employs quantitative & quantitative analysis methods to assess risks. Quantitative risk analysis includes data gathering and representation techniques (interviewing, probability distribution), quantitative risk analysis and modeling techniques (sensitivity, decision tree). On the other hand, qualitative risk analysis includes such tools and techniques as risk probability and impact assessment, the probability and impact matrix, risk data quality assessment, risk categorization, risk urgency assessment. Quantitative risk analysis includes data gathering and representation techniques (interviewing, probability distribution), quantitative risk analysis and modeling techniques (sensitivity, decision tree).

Table 10. Quantitative and Qualitative analysis

		Frequency	**Percent**
The bank employs quantitative analysis methods to assess risks	Strongly agree	63	48.8
	Agree	65	50.38
	Neutral	1	.7
	Total	129	100
The bank employs qualitative analysis methods to assess risks		Frequency	Percentage
	Strongly agree	76	58.9
	Agree	48	37.2
	Neutral	5	3.87
	Total	129	100

Source own survey, May, 2021

As indicated on the above table a considerable number of employees who participated in this survey, that is, 48.8% responded that they strongly agree that their bank (Abay) employs a quantitative analysis method to assess risks. Similarly, 50.3% of respondents show their agreement. Only a smaller number 0.7% remained neutral to the question posed. Accordingly, when it comes to qualitative analysis majority 58.9% of the respondents participating in the survey strongly agreed that their bank employs qualitative analysis methods to assess risks. Accordingly, 37.2% agree on the question. The remaining 3.87% of participants show their neutrality to the issue.

From the result gained, it is fair to say that Abay bank has established qualitative & quantitative analysis methods to assess risks. In a lot of good risk analyses relating to safety, there is a mix of qualitative and quantitative analysis that works together to produce a fairly comprehensive risk analysis. A bank that integrates both methods to assess risks can create a better risk management system.

4.2.8. Risks and management mechanism by the bank

Risk-taking is an inherent element of banking and, indeed, profits are in part the reward for successful risk-taking. On the contrary, excessive, poorly managed risk can lead to distresses and failures of banks. Risks are, therefore, warranted when they are understandable, measurable, controllable and within a bank's capacity to withstand adverse results. According to NBE, (2010) the most common and interrelated risks facing banks in Ethiopia, are credit, liquidity, market, and operational risks.

Taking this into consideration survey participants who are working in Abay bank were asked if their bank has an effective risk management mechanism for managing its risks. Moreover, concerned managing staff members from the bank were interviewed about the major risks their bank is facing and ways of managing them. Their response is presented & analyzed below mixing the result obtained from qualitative data with the quantitative from the questionnaire.

Table 11. Risk management mechanisms

		Frequency	Percentage
The bank has an effective risk management mechanism for managing **credit risks**	Strongly agree	58	44.9
	Agree	65	50.3
	Neutral	6	4.6
	Total	129	100
The bank has put in place an effective risk management strategy for managing **market risk**		Frequency	Percentage
	Strongly agree	76	58.9
	Agree	48	37.2
	Neutral	5	3.8
	Total	129	100
The bank has put in place an effective risk management strategy for managing **liquidity risks**	Strongly agree	61	47.2
	Agree	67	51.9
	Neutral	1	.7
	Total	129	100
The bank has put in place an effective risk management strategy for managing **operational risks**	Strongly agree	79	61.2
	Agree	49	37.9
	Neutral	1	.7
	Total	129	100

Source own survey, May, 2021

In an interview with the head of the risk management department in the bank, he confirmed that just like other banks in the business, their bank (Abay) is also exposed to a variety of financial & non-financial risks. Because of this they have well-constructed risk management infrastructures andare following government (NBE) regulations. The program/infrastructure contains active board and senior management oversight, adequate policies, procedures, and limits; adequate risk monitoring and management information system; and adequate internal control.

The head of the Risk management department in Abay bank stated that:

> *"We are of course facing both financial & non-financial risks as it is the nature of the business. Key risks that we are dealing with include credit risks, liquidity risks, market, and operational risks. The most common risks we are facing regularly are a credit risk. Collecting loans granted to our customers has been the major problem in this business. Hence, we are working carefully to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Board and Senior Management Oversight will be included before permitting any loans to individuals or firms. Moreover, Policies, Procedures, and Limits are strictly taken to consideration. To reduce our exposure of credit risks we use a corps of credit analysts who have the experience, knowledge, and background to exercise prudent judgment in assessing, approving, and managing credit."*
>
> *(Male, 51, M.A in Marketing and Business Management, June 2021).*

The response gained from the interview is in an agreement with the data obtained from the questionnaire. Effective risk management includes Identifying the risk, Analyze the risk, Prioritize the risk, Treat the risk, and Monitoring the risk.As shown above, in the table a relatively higher number of participants 50.3% agreed that their bank has an effective risk management mechanism for managing credit risks. Similarly, 44.9% of them strongly agreed. The remaining 4.6% however, remained neutral concerning the question.

Accordingly, the response of survey participants presented above in the table indicatesthat The bank has put in place an effective risk management strategy for managing market risk.

The exposure to market risk may occur as a result of some speculative positions deliberately taken by the bank (own account trading), or may derive from the market creator activities for the clients (dealing). The majority of the respondents (37.2%) agreed on the availability of an effective risk management strategy for managing market risk in their bank. Accordingly, (58.9%) Strongly agree with the question asked. It is only a smaller number 3.8% of the respondents who remain neutral to the issue.

When it comes to liquidity risks the result from the survey indicate that the bank has put in place an effective risk management strategy for managing liquidity risks. Liquidity risk management is a major activity of every financial institution therefore every financial institution strives to provide and maintain a certain level of liquidity daily. There is no financial institution that is not prone to liquidity risk and it has been noticed recent that it is one of the greatest contributory factors to bank failure nowadays. Therefore, if a financial institution wants to make a profit it should put in mind the risk that waits. Considering this survey participants who are employees of the bank (Abay) were asked to rate their level of agreement on the practice/availability of an effective liquidity risk management strategy in their bank.

As shown above, in the table,the majority of participants (51.9 %) agree that their bank has put in place an effective risk management strategy for managing liquidity risks. Similarly, (47.2 %) strongly agree while the rest with a very number (0.7%) prefer to remain neutral. This is a clear indication that Abay bank has established ways to manage and deal with **liquidity risks.** According to NBE, (2010) statement Failure to properly manage liquidity can quickly result in significant unanticipated losses. On the other hand Sound, liquidity management can reduce the probability of serious problems.

Operational risks were also another important area the bank has identified as a risk to be taken seriously.Nowadays Banks have struggled to control operational risk, which is the risk of loss due to errors, breaches, interruptions, or damages either intentional or accidental caused by people, internal processes, systems or external events. Hence, respondents were asked to show the level of their agreement on the prevalence of an effective risk management strategy for managing operational risks in their bank. According to the result Majority of respondents (61.2 %) strongly agreed when asked if their bank has an effective risk management strategy for managing operational risks. Accordingly, (37.9%) agreed to the question presented to them. The remaining (0.7%) followed a neutral stance to the question.

Based on the data obtained it is possible to learn that the bank has put in place an effective risk management strategy for managing operational risks.Banks that understand the critical areas that drive operational risk can build a proper/effective Operational Risk Management strategy. This in turn helps the bank to sustain in the business being more profitable.

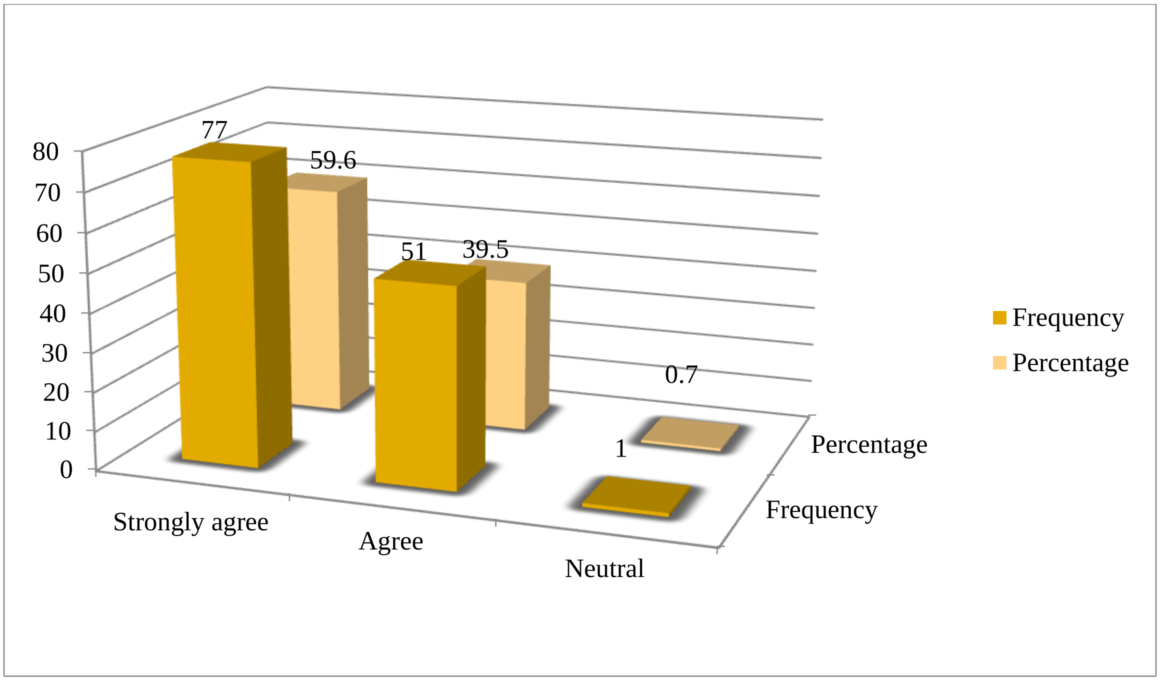
4.2.9. Executive management reviews the performance in managing business risks

For a successful risk management practice, the top management of the bank are expected to regularly review the performance of the bank in managing its business risks. It provides an overview of the risk governance structure of the organization. Moreover, risk governance

Indicates who is involved in risk management and what their responsibilities are. Managing business risks should not be left alone for employees and middle management staff of the institution; instead, all concerning bodies including the executive management personalities need to engage. The chief executive management Drives a culture of risk management and signs off on annual risk attestation.

To check that survey participants were asked to indicate their level of agreement concerning it. The following figure sums up their response.

Figure 4. excutive management reviews



Source own survey, May, 2021

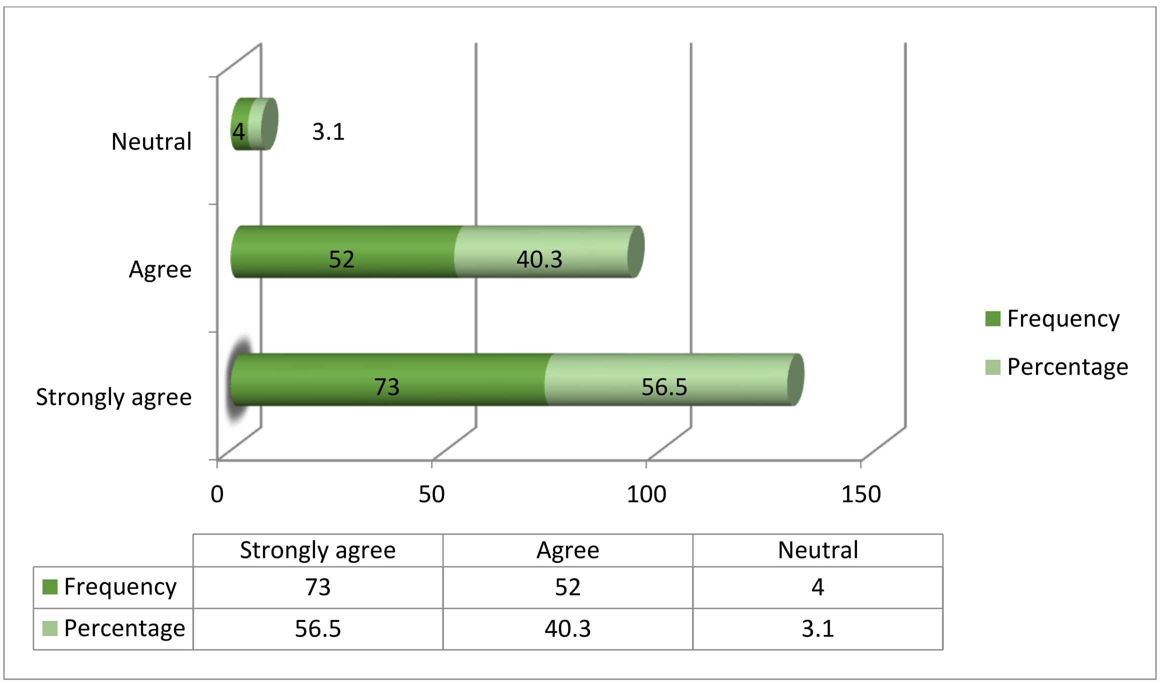
As clearly seen above in the figure, the majority of respondents (59.6 %) strongly agree that their bank's top executive management regularly reviews the performance of the bank in managing its business risks. Accordingly, 39.5% agreed when asked. The remaining 0.7% took a neutral side.

The data tells as that there is an involvement of executive management in reviewing the performance of the bank in managing its business risks.

4.2.10. Review/feedback on risk management strategies and performance of the bank

The foundation for effective risk management is the identification of existing and potential risks in the bank's activities. This creates the need for the development and implementation of clearly defined policies, formally established in writing, which set out the philosophy of the bank and the parameters under which risk is to be controlled. Measuring the risks attached to each activity permits a platform against which the bank can make critical decisions about the nature and scope of the activity it is willing to undertake. Larger organizations have long understood that feedback is a vital part of the risk management framework. Financial institutions such as Abay bank should also develop feedback loops that deliver key information about their operations and the company's impact on customers. Respondents were asked to rate their level of an agreement if there is a highly effective & continuous review/feedback on risk management strategies and performance of the bank. The figure below composed their responses.

Figure 5. feedback on risk management strategies



Source own survey, May, 2021

As shown above, majority (56.5%) of the respondents participating in the survey strongly agreed that there is a highly effective & continuous review/feedback on risk management strategies and performance of the bank. Accordingly, 40.3% agree with the provided question. However, 3.1% of participants remain neutral about the issue when asked.

The finding from the above data can tell us that the bank has established a system to ensure that policies and procedures address material areas of risk to a bank and that they are modified, reviewed when necessary to respond to significant changes in the activities or business conditions of the bank. Studies suggest that a financial institution that establishes effective & continuous review/feedback on risk management strategies and performance of the bank; not only reduces its exposure for further risks but also manages to be more profitable & out scale the competition in the business.

4.2.11. Documentation of Risk management procedures and processes of the bank

Having only a risk management system wouldn't make it complete without proper documentation. Every financial institution such as banks are advised to properly document their risk management procedures and processes. Below in the table respondents' level of agreement is summarized.

Table 12. Documentation of Risk management

		Frequency	Percent
	Strongly agree	67	51.9
	Agree	61	47.2
	Neutral	1	.7
	Total	129	100

Source own survey, May, 2021

As clearly depicted above in the table majority of respondents (51.9%) strongly agree that risk management procedures and processes of the bank are documented. Similarly, (47.2%) of participants show their agreement to the question. The remaining (0.7%) of employees who participated in the survey showed their neutral stance.

From the above result, we can learn that the bank has a culture of documenting **risk management procedures and processes** for better understanding the changes in the process of risk management.

4.2.12. Guidance for Staff members about ways of managing risks

Risk managers know the purpose of their role and the value they bring to any organization. However, other employees may not understand what the risk department does or the widespread benefits of their strategy and actions. In many cases, they might be unable to accurately define risk management! This creates a problem. It's harder for risk managers to get the buy-in to implement mitigation procedures when risk management isn't common knowledge. Hence, staff in all services needs to be guided about ways of managing risks to actively explore with service users and their careers the potential benefits of managing risk positively. The following table depicted participants' responses on the issue.

Table 13. guidance for staff members

		Frequency	Percent
Valid	strongly agree	78	60.4
	agree	50	38.7
	neutral	1	.7
	Total	129	100

Source own survey, May, 2021

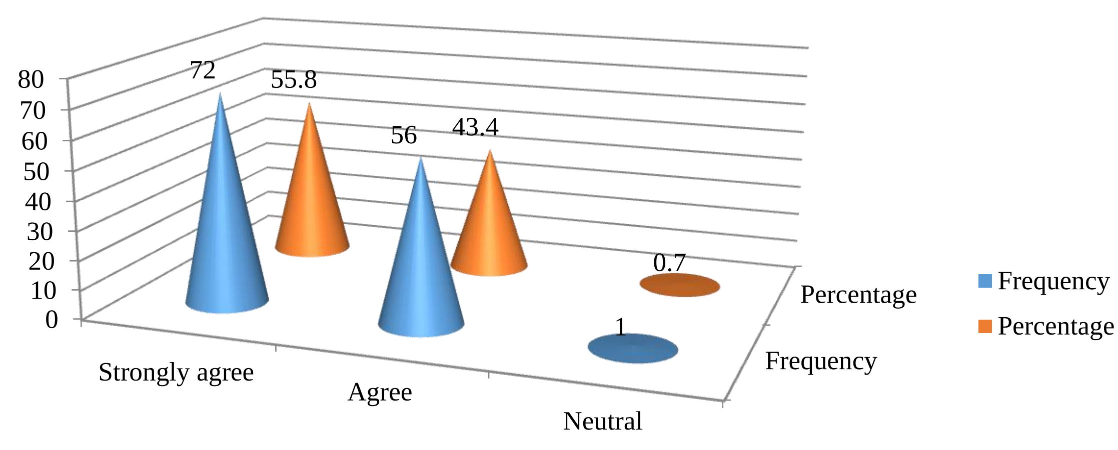
As shown above, in the table, the majority of respondents 60.4% strongly agree that staff members are often guided about ways of managing risks in their institution. Accordingly, 38.7% agree that their staff members receive guidance concerning risk management.

From the result, it is possible to learn that the bank has been guiding its staff concerning risks & ways of risk management. When staff is well informed about risks it makes it easy to implement mitigation procedures as all have common knowledge.

4.2.13. Training programs in the area of risk management

To run an organization, be it big or small, requires staffing the organization with efficient personnel. Specific job skills, ability, knowledge, and competence are needed in the workplace. most employees need extensive training to ensure the necessary skills to bring out the substantive contribution towards the company's growth. Financial institutions mainly banks are advised to equip their staff with the necessary skills in the area of risk management. Survey participants were asked their level of agreement concerning the availability/provision of training programs in the area of risk management. The following figure contains their responses.

Figure 6. Training programs



	Strongly agree	Agree	Neutral
Frequency	72	56	1
Percentage	55.8	43.4	0.7

Source own survey, May 2021

As shown above, in the figure majority of the participants 55.8% strongly agree that training programs are encouraged & been given by the bank in the area of risk management. Similarly, 43.4% agreed on the issue. The remaining 0.7% are neutral concerning the given question.

The result clearly shows that training programs are being encouraged and staff members of the bank are being provided training in connection with risk management.

4.2.14. Monitoring & evaluation to check the effectiveness of risk management in the bank

Assessing and facilitating the implementation of organizations' **risk management** process through Monitoring and Evaluation proactively improves and enhances service delivery against strategic and operational objectives. In this regard management of the organization is expected to ensure a better understanding of Monitoring and Evaluation processes, structures, and Evaluation systems, skills, periodic reporting to stakeholders, and good service delivery.

Risk has a dynamic context resulting from the constantly changing external and internal environments. Organizations such as banks must monitor not only risks but also the effectiveness and adequacy of existing controls, risk treatment plans, and the process for managing their implementation.

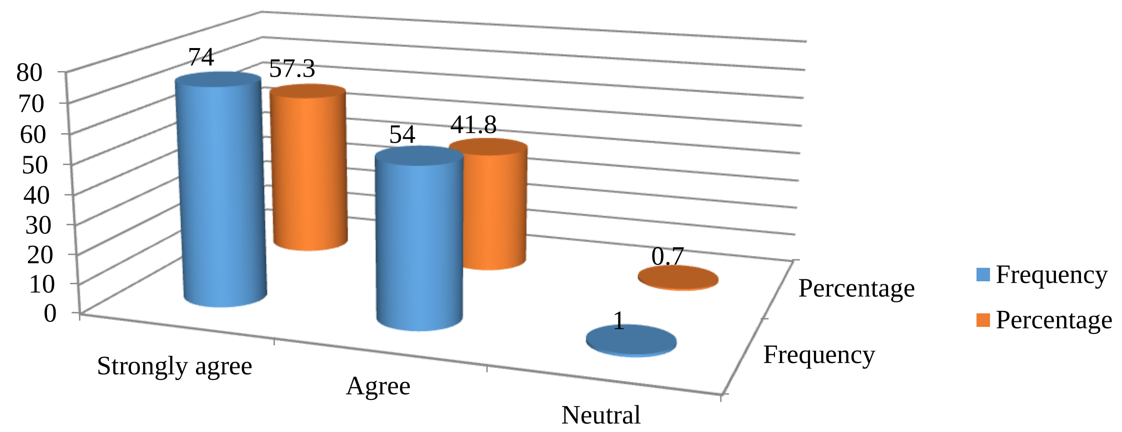
Informants from the bank were interviewed concerningthe bank’s effort in monitoring and evaluating its risk management activities. As the finding indicates Monitoring and review are planned part of the risk management process in the bank and involve regular checking or surveillance. The results are being recorded and reported externally and internally, as appropriate. The results also are input to the review and continuous improvement of the bank's risk management framework.

Responsibilities for monitoring and review are clearly defined in Abay bank. The firm's monitoring and Evaluation processes encompass all aspects of the risk management process for Ensuring that controls are effective and efficient in both design and operation. Similarly, the bank uses it for Obtaining further information to improve risk assessment, Analyzing and learning lessons from risk events, including near-misses, changes, trends, successes, and failures. Moreover, we use a monitoring and evaluation process to detect changes in the external and internal context of the bank, including changes to risk criteria and to the risks, which may require revision of risk treatments and priorities. The process is also being used in our bank to Identify emerging risks that the bank has to give attention to.

Continuous Improvement In the bank’s Monitoring & evaluation of risk management activities is also vital. The effectiveness of the risk management framework implemented has been periodically reviewed to ensure continuous improvement of risk management in the bank. The purpose of the framework is to embed a risk-aware culture within the bank. This is also being evaluated in light of breaches and near misses, the effectiveness of communication, and assessing what lessons have been learned and remedial actions taken by the concerned body in the bank.

The result obtained from the quantitative data (questionnaire) is also in an agreement with the above qualitative result. Survey participants were asked if the Management of Abay bank conduct Monitoring and evaluation to check the effectiveness of risk management. The result is summarized below in the graph.

Figure 7. Monitoring and Evaluation



	Strongly agree	Agree	Neutral
Frequency	74	54	1
Percentage	57.3	41.8	0.7

Source own survey, May 2021

As shown above in the figure majority of survey participants 57.3% strongly agree that the Management of Abay bank conducts Monitoring and evaluation to check the effectiveness of risk management. Accordingly, 41.8% agreed on the prevalence of such activity while the rest 0.7% preferred to remain neutral. The result tells the presence of monitoring and evaluation programs in Abay bank to check the effectiveness of risk management. Assessing and facilitating the implementation of Monitoring and Evaluation processes in the bank proactively improves and enhances service delivery against strategic and operational objectives.

4.2.15. Evaluate existing risk management practices &Measurement, Models

A risk management plan & practice can never be perfect. However, the degree of its success depends upon risk analysis, management policies, planning, and activities. A well-defined management plan can be successful only if risks are properly accessed. And if not, the main objective of the risk management plan itself is defeated. Critical evaluation of a risk management plan at every stage is very necessary, especially at an early stage. It will allow companies to discover the flaws before it gets into action. Once you’re through the process, you can address the issues and then introduce them. Survey participants were asked how often their bank evaluates the existing risk management practice. Below in the table, their response is summarized.

Table 14. Evaluating existing risk management practices

		Frequency	Percent
Evaluate existing risk management practices	weekly	8	6.2
	monthly	121	93.7
	Total	129	100
Evaluate existingriskmeasurement, models	weekly	8	6.2
	monthly	121	93.7
	Total	129	100

Source own survey, May 2021

As the table above shows majority of respondents,93.7% say that their bank monthly evaluates its existing risk management practices. The remaining 6.2% admitted that they do evaluate existing risk management practices every week.

It can be understood that evaluating existing risk management practices is common in Abay bank. Most of the time as the result indicated a monthly evaluation practice is common. This process is very helpful for the healthy sustainability of the bank. Those banks that do evaluate their risk practices regularly using Accurate and timely measurement can establish effective risk management systems.

When it comes to Evaluating existing risk management measurements, models respondents were asked how often the bank does such activities.To see if the risks are still varied or countermeasures are still the right choice regular checks need to be made on risk registered. A risk that was low in the beginning can become high during the time or risk that was very high at the start is gone when you finish your project. The same for the countermeasures that were taken (or not) can need some change based on recent changes in the organization or regulations. hence, survey participants were asked about their bank's practice of evaluating its risk management measurements, & models.

The above table shows that majority of participants 93.7% confirmed that their bank does a monthly evaluation on existing risk management measurement, models. On the other hand, the remaining 6.2% of participants say that their bank does such evaluations weekly.

The data tells that there is a tendency on the side of Abay bank to re-evaluate its risk measurement methodologies and models. In this regard, NBE (2010) stated that once the risks associated with a particular activity have been identified, the next step is to measure the significance of each risk. Each risk should be viewed in terms of its three dimensions: size, duration, and probability of adverse occurrences. Accurate and timely Evaluation of existing risk management measurement, models is essential for an effective risk management system.

4.2.16. Compute risk exposures

The calculation of probability related to a particular event resulting in loss to the firm is an integral part of risk analysis. Therefore, understanding, estimating, and taking necessary precautions to avoid or minimize that risk is an essential decision for management. Since Financial institutions are exposed to different kinds of risks computing their risk exposure and getting ready for tackling the adverse effects. Survey participants were asked how often their bank computes its risk exposures. The following table summarized their response.

Table 15. compute risk exposure

		Frequency	Percent
	daily	1	.7
	weekly	8	6.2
	monthly	120	93
	Total	129	100

Source own survey, May 2021

As clearly shown above in the table the extreme majority of participants 93% said that the bank computes risk exposure monthly, on the other hand, 6.2% of survey participants say that they weekly compute risk exposures in their bank. The remaining 0.7% of participants however said they did it on a daily basis.

The above result indicated the prevalence of computing risk exposure practices in the bank. Often the concerned staff in the bank does it monthly which designates a regular process and careful steps to mitigate the problems coming with risks.

4.2.17. Preparing reports

Every bank must have adequate information systems for measuring, monitoring, controlling, and reporting on risks. Along with more rigorous identification and measurement of broad organizational risks, improved reporting (disclosure) of organizational risks is needed so that managers and other stakeholders can more effectively consider those risks and make more informed decisions Marc J. E. and Adriana R (2006). Reports should be provided on a timely basis to the bank's board of directors, senior management, and other appropriate personnel. A strong management information system (MIS) that is flexible enough to deal with various contingencies that may arise is central to making sound decisions related to risks. Respondents were asked how often their bank prepared reports for concerned bodies. Their response is compiled below in the table.

Table 16. Preparing reports

		Frequency	**Percent**
publish internal financial Risk Report for the Executive Board	weekly	13	10
	monthly	116	89.9
	Total	129	100
publish internal financial Risk Report for the Supervisory Board		Frequency	percent
	weekly	9	6.9
	monthly	120	93
	Total	129	100
prepare ad-hoc reports for internal use	weekly	6	4.6
	monthly	123	95.3
	Total	129	100
send reports to regulators	weekly	11	8.5
	monthly	118	91.4
	Total	129	100
prepare ad-hoc reports for regulators	weekly	1	.7
	monthly	128	99.2
	Total	129	100

Source own survey, May 2021

Primarily respondents' were asked how often their bank publishes internal financial Risk Reports for the Executive Board. As clearly shown in the table above, the majority of respondents 89.9% say that their bank (Abay) monthly publishes its internal financial risk reports. However, the remaining 10% say that risk reports are published weekly for the executive board.

The result indicates that the executive board is receiving internal financial risk reports from the bank. Boards have ultimate responsibility for the level of risk taken by their banks. Accordingly, they should approve the overall business strategies and significant policies of their organizations, including those related to managing and taking risks, and should ensure that senior management is fully capable of managing the activities that their banks conduct. Consequently, what is most important is for these bodies to have a clear understanding of the types of risks to which their banks are exposed and to receive regular reports that identify the size and significance of the risks in terms that are meaningful to them. In this regard what the bank (Abay) doing is appreciative that will help the bank to reduce its risk exposure and strengthen profitability. Its experience in this aspect can be a role model for other banks in the country.

Similarly, respondents were asked to indicate how often their bank publishes internal financial Risk Reports for the Supervisory Board. The Supervisory Board reviewed the development of the Company in-depth and performed its supervisory duties to the full. It regularly advised and monitored the Executive Board in running the business of the Company. The supervisory board accordingly expects financial risk reports for further supervision and comments. As clearly shown above in the table majority of respondents 93% say that the bank provides financial risk reports for the supervisory board every month. On the other hand, the remaining 6.9% of participants confirmed that their bank delivers its risk reports every week.

The result from the data reveals the regular deliverance of financial risk reports from the bank to the supervisory board. This can tell us that the bank regularly publishes and deliver internal financial Risk Report for the Supervisory Board. This process can help the bank to integrate identified risks into strategic and operational decisions. A study by Marc J. E. and Adriana R (2006) stated that inadequate risk reporting in some organizations has led to a failure to fully integrate identified risks into strategic and operational decisions.

How often Abay Bank Prepares ad-hoc reports for internal use was another question delivered to survey participants. ad-hoc reports help its users to answer critical business questions immediately by creating an autonomous report, without the need to wait for standard analysis with the help of real-time data and dynamic dashboards. Working alongside recurring or ongoing (daily, weekly, or monthly) risk data reports, ad hoc reporting forms a vital part of any business, brand, or organization's growth and sustainability by offering a level of insight that adds an extra layer of substance and success to the data-driven decision-making process. Concerning the bank's habit of preparing such reports, the majority of respondents 95.3% say that the bank prepares ad-hoc reports for end users every month. On the other hand, 4.6% say they provide such reports weekly.

From the data obtained it is possible to learn that Abay bank has been engaged in the regular preparation of ad-hoc reports. Using such reporting mechanisms could benefit the bank as it reduces the IT workload, as it is easy to use, Ensures flexibility within the constantly changing business environment, Saves time and costs, &is Completely customizable.

When it comes to sending reports to regulators survey participants were asked how often their bank sends reports to regulators. With increased regulation of internal control over financial reporting, representatives of regulators and registered auditors are interested in both external and internal risk reporting. Primarily, however, they are interested in compliance risks, such as risks of unreliable and incomplete financial information for internal decision-making and external reporting, and reporting risks, such as risks of data accuracy and reliability. In addition, they may also be interested in operations risks, such as risks related to product quality and product safety, environmental compliance, etc.The table above indicates that majority of respondents 91.4 % confirmed that the bank sends reports to regulators monthly. On the other hand, 8.5% say that their bank sends reports weekly.

The result tells us that the bank regularly often monthly prepares & sends reports **to regulators**. A financial institution that organizes its reports and delivers them regularly to concerned bodies such as regulators can reduce its financial as well as non-financial risks.

When it comes to Preparing ad-hoc reports for regulators respondents were asked to indicate how often their bank does such reports.Ad-hoc reporting is common and often used by a financial institution that has a lot of teams that often use different reports, and which doesn't want to maintain a lot of IT staff for these purposes. Despite an ad-hoc report for internal use respondents were asked how often their bank prepares ad-hoc reports for regulators. As can be seen above in the table majority of the respondents 88.1% of respondents admitted that their bank makes monthly ad-hoc reports. The remaining 0.7% reported that they made a report every week.

4.3. Role of risk management for financial performance

Informants from the management bodies of the bank were interviewed concerning the role of risk management practices of the bank and its implication for better financial performance. Moreover, necessary documents were reviewed to see the performance of the bank. As the banking business requires a dependable risk management system, the bank deployed a risk governance framework that extends from the Board of Directors to frontline workers, with the primary aim of monitoring and follow-up incidents and reviewing their impacts. During the year, close follow-ups have been made by the BOD and the executive on regular basis to act upon risk areas identified by the bank's internal control and risk management functions. Besides, by making a thorough analysis, Abay has set forth remedial actions to tackle the impacts of the COVID-19 pandemic.

The undergoing national socio-economic reforms on the one hand, the spread of the coronavirus which has become the global health, political and economic issue on the other hand, constitute the two primary phenomena of the year impacting Abay Bank in particular and the banking system in general. Coupled with these factors, shortage of foreign currency, fierce competition in resource mobilization, upsurging of inflation, and market slowdowns, were the features characterizing the domestic economy for the year under review.

Despite the prevalence of the above-mentioned unfavorable conditions, Abay Bank has registered remarkable resilience in dealing with the intricate circumstances. Loans and advances grew by 52% from last year while deposits and Revenue gone-up by 39% and 14%, to reach Birr 11.8 billion, 16.1 billion, and 2.1 billion, respectively. In another key performance indicator, the total capital and asset of the Bank reached Birr 3.1 billion and 20.2 billion improved by 26% and 34%, from their respective records of the preceding year. Such successes only come with proper risk management systems planted in the bank.

As the head of the risk management department stated in his interviewee

> *"As a bank, we have so many other issues to work to bring profit to the institution; however we can never underestimate the role of risk management to the success. It is hard to imagine such progress without properly managing and dealing with risks. So what I can say is the risk management system we have contributed a lot to the success of our bank". (Male, 51, M.A in Marketing and Business Management, June 2021).*

In addition, the Bank continued to expand its service outlets to increase its accessibilities to the public and meet the various demands of its customers. In this effort, the Bank opened 31 new branches during the year that brought the total number of branches to 223 by June 30, 2020.

In general, we can learn that Abay bank has registered a notable financial and non-financial performance. As the document reviewed stated; the board of directors continues making its utmost effort to strike a balance between robust growth and sustainability to deliver on long-term value to stakeholders. In doing so, the board is determined to follow-up on the execution of the strategic plan along with the recommendations forwarded based on the findings of the Mid-Term Review of the bank's strategic plan, to take measures that would strengthen corporate governance and institutional capabilities, strengthen risk management frameworks and internal control systems.

4.4. Challenges of managing risks in the bank

It has been established that risk management is a challenging task for institutions, especially the financial ones (Feridun, 2006). Banks and other financial organizations are faced with the need to continually develop and improve both operational and technical practices. It is also a fact that the management of credit risk is assuming a greater significance in the modern environment. There is a trend within the banking industry towards a quantitative evaluation of their loan portfolios risk. Previously, it is market risks that had gained prominence in terms of quantitative risk management, but this has been gradually overtaken by credit risk management. Quantitative risk management has posed several challenges, as well as opportunities for personnel. These challenges include both quantitative problems modeling and change management issues (Feridun, 2006).

In an interview with the management of the bank although they admit that their bank is working very hard on managing risks they point out some of the common problems they are facing while implementing this process. Amendments to existing regulations being handed down by top authorities from the center in response to some socio-political or emerging technology are one of the challenges that hindered the bank to comply with the ever-changing rules.

Security is another challenge facing Abay bank according to informants. In his statement during a one to one interview:

> *"Cyber security Breaches are problems of the banking industry in our country including ours as the banking industry has become increasingly tech-based, which also become part of the cost of doing business. From day to day cyber security problems emanating from outside and inside the country are challenging our bank. Threats such as Denial of Service, malwareattacks, phishing, grow from time to time.Because of this, ourIT administrators often find themselves dazed by problems related to it and spend a significant amount of time investigating things to solve the problem." (Male, 46, M.A in Economics, June 2021).*

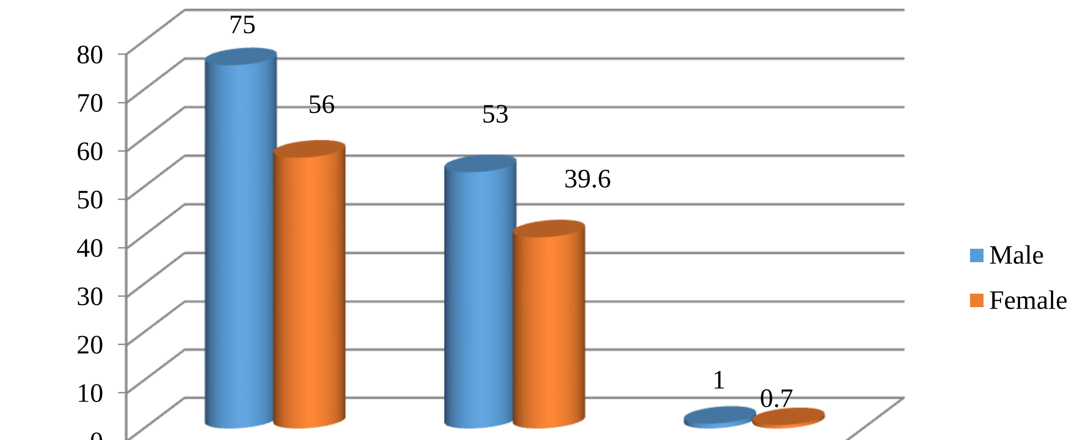
Insufficient risk management is another challenge mentioned by the interviewed informants who were in management positions. Most believe that the bank is doing its best to manage its monetary and non-monetary risks. However, they don't believe that they are sufficient resources in terms of technology and well-trained manpower to deal with ever-changing risks with its complications.

The political situation in the country is also another problem/challenge posing many difficulties in our operation. Our bank was exposed toseveral credit and liquidity risks because of the political instability in the country.

> *There are several non-returned credits simply because of the continuous instabilities in the country. Those Individuals who took credits living in a conflict zone are not returning to our bank. Many of our branches are not working in those areas with all the files of the bank. (Female, 38, M.A in marketing management, June 2021).*

Unlike the result gained from the interview, the quantitative result from the survey tells a different story. In the scramble to implement risk strategies to improve overall performance and secure a competitive advantage, a company must overcome significant risk management challenges. Survey participants of this study were asked to show their level of agreement concerning to prevalence of major challenges in the bank about risk management. The following figure summarized their response.

Figure 8. prevalence of major challenges in the bank



	Strongly agree	Agree	Neutral
Male	75	53	1
Female	56	39.6	0.7

Source own survey, May 2021

As depicted above in the figure majority of the respondents 56% strongly agree that there is no major challenge at present. Similarly, 39.6% agreed with the absence of major challenges at present. The remaining 0.7% of participants remain neutral when asked the question on challenges.

The above finding tells us that the bank has no major challenges facing major challenges at present. However, the management of the bank believes that despite a strong commitment to reducing risks it is facing some challenges.

4.4.1. Uncertainty Over Future Regulations

Uncertainty has real effects on the economy–for example, it may increase firms' cost of capital and decrease investment. Investment might be forgone entirely if uncertainty hinders the decision-making process of corporate boards (Garlappi, Giammarino, and Lazrak 2013). In addition to these supply-side effects, high uncertainty dampens consumers' demand for goods and services in a downturn. Often financial institutions are uncertain over future regulations.

Survey participants were asked to indicate the level of their agreement concerning uncertainty issues of the bank over future regulations. The table below summarized participants' response.

Table 17. uncertainity over future regulations

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
	strongly agree	6	4.6		
	agree	10	7.7		
	neutral	8	6.2		
	Disagree	32	24.8		
	Strongly disagree	73	56.5		

Source own survey, May 2021

The above table depicted respondents' level of agreement concerning their uncertainty regarding future regulations in their bank. 56.5% of them strongly disagree that they feel uncertain over future regulations. Similarly, 24.8% of them disagree on the uncertainty issue. When 6.2% prefer to remain neutral the remaining 7.7% & 4.6% agree and disagree simultaneously.

The result from the data clearly shows that most of the survey participants have certainty **over** future regulations that might have repercussions on the bank. However, this finding has some level of contradiction with the interview result from management. The result from the qualitative data state that Amendments to existing regulations being handed down by top authorities from the center in response to some socio-political or emerging technology is considered as one of the challenges facing Abay bank. For better management of its risks, a bank should promote effective and efficient operations, reliable financial and regulatory reporting, and compliance with relevant laws, regulations, and prudential norms.

4.4.2. Insufficient Risk Management Processes, Procedures, and Tools

Risk management processes, procedures, and tools are vital for any organization attempting to manage and reduce the different kinds of its risks.

Survey participants were asked to reveal their level of agreement if there are Insufficient risk management processes, procedures, and tools in their bank. The following table summarized their responses.

Table 18. Insufficient Risk management process, procedure, and tools

	Frequency	Percent
Strongly agree	4	3.1
Agree	7	5.4
Neutral	2	1.5
Disagree	65	50.3
Strongly dis agree	51	39.5
Total		

Source own survey, May 2021

As shown above in the table majority of survey participants are against the notion that states there are insufficient risk management processes, procedures, and tools in their bank. 50.3% & 39.5% disagree and strongly disagree accordingly when they asked. A very smaller portion of the participants 1.5% took a neutral stance. However, 5.4% agree with the view while the remaining 3.1% strongly agree that there is a lack of sufficient risk management processes, procedures, and tools in Abay bank.

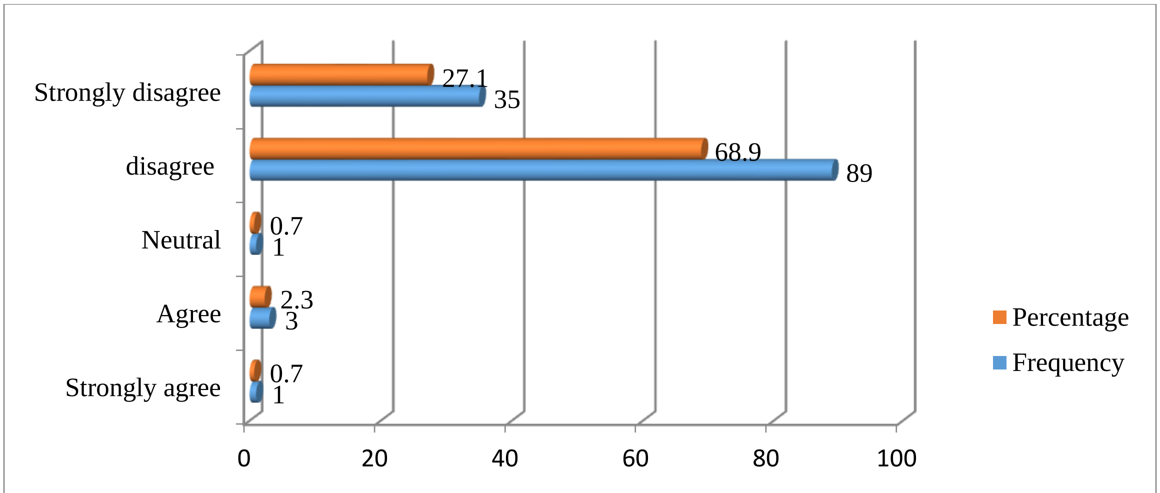
The finding indicated the prevalence of sufficient risk management processes, procedures, and tools in Abay bank. This result from the questionnaire seems in contradiction with the result obtained from the interview. The qualitative result suggests that the bank is doing its best to properly manage its risks, however, there is a challenge in terms of technology and well-trained manpower to run better management of risks. When a bank establishes sufficient risk management processes, procedures, and tools can successfully reduce the numberof damages caused by risks.

4.4.3. Communication Throughout the Organization

Proper communication is vital for any organization to sustain and achieve its objectives. Without proper communication from top management to the lower executive staff, an organization couldn't manage its risks and may suffer a risk of failure.

Concerning the prevalence of proper communication/absence of poor communication, respondents were asked to show the level of their agreement. Hence, the following figure summarized their responses.

Figure 9. communication



	Strongly agree	Agree	Neutral	disagree	Strongly disagree
Percentage	0.7	2.3	0.7	68.9	27.1
Frequency	1	3	1	89	35

Source own survey, May 2021

As can be seen from the above figure majority of respondents 68.9% disagree on the presence of poor communication in their bank. Accordingly, 27.1% showed their strong disagreement with the question presented. When only 0.7% preferred to stay neutral the remaining 2.3% & 0.7% agreed and strongly agreed with the presence of poor communication in the bank.

It is clear to see the data that Abay bank has maintained a proper communication system which enables a better risk management system. Other research findings like Lynn., K Terumi H (2009) indicates that the presence of better communications in an organization can lead to profitability and harmonized working environment.

4.4.4. Using Real-Time Data

Organizations certainly benefit a lot from good use of real-time data. Survey participants of this study were asked to indicate the level of their agreement concerning the prevalence of sufficient real-time data in their bank. Below in the table, their response is compiled.

Table 19. using real-time data

		Frequency	Percent
	strongly agree		
	Agree	2	1.5
	neutral	6	4.6
	Disagree	78	60.4
	Strongly disagree	43	33.3

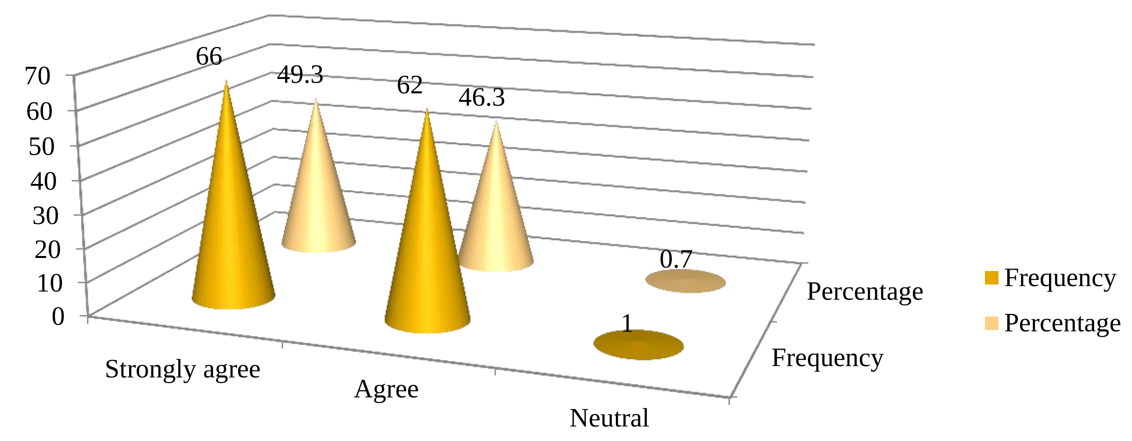
Source own survey, May 2021

As depicted above in the table majority of respondents do not agree with the question which states there is insufficient real-time data in Abay bank. 60.4% of the respondents disagreed with it and similarly, 33.3% of them strongly disagrees when asked if there is insufficient real-time data in their bank. When 4.6% took a neutral position the remaining 1.5% agrees that there is insufficient real-time data in their bank.

4.4.5. Leadership in the Risk Management Function

Strong leadership provides a vital foundation for the transparency, openness, and commitment to continuous improvement that are so necessary for effective risk management. Poor risk governance, leadership , and discipline, resulting in enterprise value creation activities of the lines of business overriding the risk concerns and early warnings raised by the independent risk management function. Lack of Board focusedfollow-up on risk oversight, resulting in directors failing to ask the tough questions.

Figure 10. Leadership in risk management



	Strongly agree	Agree	Neutral
Frequency	66	62	1
Percentage	49.3	46.3	0.7

Source own survey, May 2021

As clearly depicted above in the table, 49.3 % of respondents indicated their strong agreement on the Lack of strong leadership in the risk management function within the bank. Similarly, 46.3%% of respondents reveal their agreement. Only a small number of respondents 0.7% remain neutral to answer the question.

From the above result, one can learn that there is better risk management leadership in the bank. Harvard business review (2011) stated that chief risk management plays a significant role in communicating the process which makes the Process Work better for the organization.

CHAPTER FIVE
5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

Risk-taking is an inherent element of banking and, indeed, profits are in part the reward for successful risk-taking. On the contrary, excessive, poorly managed risk can lead to distresses and failures of banks. Given the findings, this study established the nature of risk management practice in Abay bank. Risk management has played a major role in financial institutions like banks, although it has its challenges and thus, the study assessed risk management practices brought into light some of the roles of risk management on the performance of the bank.

Abay Bank, just like other financial institutions is exposed to a variety of financial & non-financial risks. Because of this the bank has established a well-constructed **risk management infrastructure** and is following government (NBE) regulations. The program/infrastructure contains active board and senior management oversight, adequate policies, procedures, and limits; adequate risk monitoring and management information system; and adequate internal control. Hence, the bank has put in place an effective risk management strategy for managing operational, liquidity, credit, and market risks.

The bank employs both quantitative and analysis methods to assess risks. The finding of the study also suggests that Executive management of the bank regularly reviews the performance of the bank in managing its business risks. There is also a highly effective & continuous review/feedback on risk management strategies and performance of the bank. When it comes to documentation, the bank has a culture of documenting risk management procedures and processes for better understanding the changes in the process of risk management.

Training and other guidance programs in connection with risk management are encouraged in Abay bank and staff members are being provided regularly. Besides, the Management of Abay bank conducts Monitoring and evaluation to check the effectiveness of risk management. Computing risk exposure is another area where the bank conducts to effectively manage its risks. Moreover, the bank publishes an internal financial Risk Report for the Executive Board and Supervisory Board. The study also finds out that the bank prepares ad-hoc reports for internal use & external regulators, and sends these reports to regulators on regular basis.

When we see **the role of risk management on the bank's financial performance** it can be said that Abay bank has registered a notable financial and non-financial performance because of it. Because of proper risk management systems coupled with other activities Abay Bank has registered remarkable growth and profitability. Loans and advances grew by 52% from last year while deposits and Revenue gone-up by 39% and 14%, to reach Birr 11.8 billion, 16.1 billion, and 2.1 billion, respectively. In another key performance indicator, the total capital and asset of the Bank reached Birr 3.1 billion and 20.2 billion improved by 26% and 34%, from their respective records of the preceding year. Such successes only come with proper risk management systems planted in the bank.

Challenges of implementing Risk management practices facing the bank include Cyber security Breaches facing the bank while implementing risk management. Threats such as Denial of Service, malwareattacks, phishing, grow from time to time. The political situation in the country is also another problem/challenge posing many difficulties in the bank’s operation. The bank was exposed toseveral credit and liquidity risks because of the political instability in the country. There are several non-returned credits simply because of the continuous instabilities in the country. Those Individuals who took credits living in a conflict zone are not returning to the bank.The other challenge mentioned was insufficient resources in terms of technology and well-trained manpower to deal with ever-changing risks with its complications.

5.2. Recommendation

The findings of this research identify a lot of practices that Abay bank is implementing as part of its risk management program. Due to the bank’s effort in managing its financial and non-financial risks benefits have been gained in return. Practicing risk management has its Challenges in the bank. Hence, based on the finding of the research, the following suggestions are assumed to playa paramount role in improving the Risk management practices and minimizing the challenges of the bank during risk management practices.

The bank has established a well-constructed risk management infrastructure andis following government’s (NBE’s) regulations. Moreover, the bank’s risk management program contains active board and senior management oversight, adequate policies, procedures, and limits; adequate risk monitoring and management information system; and adequate internal control.

Hence, the bank has put in place an effective risk management strategy for managing operational, liquidity, credit, and market risks. This can be regarded as a major achievement for the bank and other banks can take it as a role model in the practice of risk management in Ethiopian banks.

Cyber Security Breaches are one of the challenges facing the bank while implementing risk management. Hence, the management of the bank needs to give a great concern for security programs that can help to reduce the threats.

Security issues in the country must be guaranteed by the government to help the smooth function of all the financial institutions including Abay bank.

The other challenge mentioned was insufficient resources in terms of technology and well-trained manpower to deal with ever-changing risks with its complications. Hence, the bank needs to devise a strategy to well equip its manpower with the necessary technology and training. Moreover, an open forum is necessary for discussing the bank's risk capabilities, such as where it stands in terms of strategy, people, processes, technology, and knowledge.

Last but not the least; the current study might be extended in the future by including other banks in the country or conducting a comparison between banks to come up with more diversified results. It can also be useful to understand the risk management systems of different banks in the business. By using other methodologies, interesting and diverse results could be expected owning to some specific elements such as economic conditions, regulations, and competition in the market.

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Annex

Questionnaire

General introduction

Dear respondent,

My name is **Philip Z. Kollie**, I am a postgraduate student at St. Mary's University School of Graduate Studies College of Business Administration. Currently, I am conducting my thesis entitled "Risk Management Practices in Abay Bank, The Case of Selected Branches in Addis Ababa, Ethiopia." in partial fulfillment of the requirement for the degree of Master of Arts in Business Administration.

My study aims to assessAbay bank's practice of Risk Management; I believe that this study will contribute to and assist the knowledge gap in the area. You are part of a selected sample of respondents whose views on the research topic are important and therefore I am respectfully requesting that you complete the questionnaire. Remember: This is solely for academic purposes and your response will be kept strictly confidential and anonymous.

Thank you for your time, co-operation, and contribution.

Yours:**Philip Z. Kollie**

Cell phone: +251944314550

Email address:zaza.pk@gmail.com

I. Demographic profile

Please put this ✔ sign in the appropriate boxes

Number	Questions	Options	Put your mark here
1.	**Sex:**		
		Male	
		Female	
2.	**Age:**		
		18-24	
		25-34	
		35-44	
		45-54	
		Over 55	
3.	**Education:** What is the highest degree or level of school you have completed?		
		1. High school graduate	
		2. Diploma	
		3. Degree	
		4. Master's degree	
		5. Doctorate	

II. Practice of Risk management in Abay bank

Please put this ✔ sign in the appropriate boxes that you agree with

No	On the Identification& Assessment of Risks:	Strongly Agree	Agree	Neutral	Dis-Agree	Strongly Disagree
1	your organization have a documented credit risk management guideline or policy					
2	your bank conducts a systematic identification of potential risks facing it					
3	The bank has the culture					

	ofprioritizing its main risks					
4	The bank shares risk management systems experiences of other competing banks in the market.					
		Strongly Agree	**Agree**	**Neutral**	**Dis-Agree**	**Strongly Disagree**
5	The possibility of occurring risks frequently assessed in This bank					
6	The bank has a computer-based support system to estimate the earnings and risk management variability					
7	The bank employs quantitative analysis methods to assess risks					
8	The bank employs qualitative analysis methods to assess risks such as high, moderate, low					
		Strongly Agree	Agree	Neutral	Dis-Agree	Strongly Disagree
9	The bank has an effective risk management mechanism for managing **credit risks**					
10	The bank has put in place an effective risk management strategy for managing **market risk**					
11	The bank has put in place an effective risk management strategy for managing **liquidity**					

	risks					
12	The bank has put in place an effective risk management strategy for managing **operational risks**					
		Strongly Agree	Agree	Neutral	Dis-Agree	Strongly Disagree
13	executive management of The bank regularly reviews the performance of the bank in managing its business risks					
14	There is a highly effective & continuous review/feedback on risk management strategies and performance of the bank					
15	risk management procedures and processes of The bank are documented					
16	staff members often guidedabout ways of managing risks					
17	training programs are encouraged & been given by the bank in the area of risk management					
18	management of the bank conduct Monitoring and evaluation to check the effectiveness of risk management					

	How frequently do you:	Daily,	Weekly,	Monthly,	Quarterly,	Annually
19	compute your risk exposures					
20	evaluate existing risk management practices					
21	evaluate existing risk management measurement, models					
22	publish internal financial Risk Report for the Executive Board					
23	publish internal financial Risk Report for the Supervisory Board					
24	prepare ad-hoc reports for internal use					
25	send reports to regulators					
26	prepare ad-hoc reports for regulators					

III. Challenges

	challenges to practice effective risk management in your bank	Strongly Agree	Agree	Neutral	Dis-Agree	Strongly Disagree
27	No major challenges at present					
28	Uncertainty over future regulation.					
29	Insufficient risk management processes, procedures, and tools					
30	Poor communication throughout the organization					
31	Insufficient real-time data					
32	Lack of strong leadership in the risk management function.					

IV. Interviewee Guiding Questions

Name of the organization: ____________________________

Name of the respondent: _____________________________

Sex: ______________________________________

Educational status: __________________________

Marital status: ______________________________

Position in the organization/company: ___________________

Year in service: ______________________________

Time the interview started: _______

Time the interview ended: ________

Total: ___________

1. Does your bank practice risk management?
2. What type of risks are you working to avoid?
3. How can you explain **the role of** risk management for your bank especially interms of financial performance
4. What challenges are you facing while using a risk management system
5. How do you monitor and evaluate your risk management activities?