St. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF RISK MANAGEMENT PRACTICE IN LION INTERNATONAL BANK S.C, ADDIS ABABA, ETHIOPIA.

BY: -ESUBALEW HABTE

ADVISOR: - ANDINET ASMELASH (Asst. Prof.)

JUN, 2023

SMU

Addis Ababa, Ethiopia

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of ANDINET ASMELASH (Asst. Prof.). All sources of materials used for the thesis have been duly acknowledged. I further 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.

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St. Mary's University College, Addis Ababa JUN, 2023

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.

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Acronyms

NPLR	Non-performing loan ratio
LIQR	Liquidity risk indicator
CIR	operational risk indicator
NBE	National Bank of Ethiopia
IT'S	Information Technology System
MIS	Management Information System
SPSS	Statistical Package for Social Science
VAR	Value at Risk
RAROC	Risk Adjusted Rate of Return

Abstract

This thesis is aimed at the assessments of risk management practices of Lion International Bank. The data was obtained from primary sources that were collected through questionnaire and analyzed by the descriptive form of research design. Purposive sampling techniques were used to select 135 sample employees respectively. Open and closed-ended questionnaires were administered to 135 respondents from selected branches and head office and analyzed using SPSS software package. The questionnaires covered key aspects of risk management including the importance of risk management practices, risk identification, risk monitoring and nature of risk management practices. 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 Lion International bank has contributed to the overall success of the organization. Some recommendations were made and prominent amongst them were that banks should give emphasis on staff training in the area of risk management, develop the technology to manage risks easily and reputational risks are highly affect the banks industry so it will be better the bank consider as a risk type.

Key words: -*risk identification, risk monitoring*

CHAPTER ONE

INTRODUCTION

Chapter one provides the general overview of the study. In this chapter back ground of the study, statement of the problem, objective (s) of the study, research question, significance of the study, Scope of the study, limitation of the study and organization of the paper are included.

1.1 Background of the study

Banks operate in a complex dynamics business environments there is always a competitive advantages for critical strategic decision to exist and survive in the local and global finical markets but no business decision making can able to make a future volatility and At what degree the business can be survival .the financial crisis during in (2007 -2009) had Brings a negative impacts on finical stability of the global financial banking service. The major issues to understand the causes' of any financial crises that happened before, which can enhance to develop the protection technique that can be strong the financial stoke markets without interrupting their regular Operations.

Risk management has the task of identifying risks, measuring the probability and the possible impact of events, and treating risk, reducing their effect with minimum investment of resources Waring&Glendon (2008).

Risk management in banking involves the process of evaluating the risks faced by a bank and minimizing the costs accordingly. Although any risk classification is subjective, we can distinguish, in essence, two major categories for banking risks namely: financial risk that refers to losses arising from financial variables and operating risks or Non-financial risks concerning losses arising from variables that have impact on the operations of a business (Banks, 2005).Financial risk is a broad term covering many negative risks related to financing, for instance, liquidity risk, funding risk, interest rate risk, investment risk, pricing risk, credit risk, and so on.(*CPA Australia*, 2006).

Non-Financial (Operational risks) are summarized as human risks, due to the discussion that the human error leads to business operations failure. Nevertheless, operational risks include all risks that incur from organizations‟ internal activities involving people, products or services Offered, operational systems, and external factors (Global Association of Risk Professionals,

2011).The strategic and reputational risks are also non-financial. The banking sector is mainly exposed to liquidity risk, interest rate risk, credit risk, operational risk, strategic risk and reputation risks (Chatterjee, 2005) .

In Ethiopia Most of the pervious empirical literature reviews for the assessment of risk management in commercial banks were the researchers conducted on a particular risk management perspective like credit risk management , liquidity risk management, operational risk management and those findings indicated that banking risk are directly related with financial performance ,but the actual empirical literature reviews and different international journal of articles suggested that risk is comes form at all lines of the business activates and not only includes insured risk ,but also non insurable or non-transferable risk coverage .

The previous studies on risk management practices of banks in Ethiopia mainly focused on the financial risks which is credit, liquidity and market risks and some researchers assessed the operational risk.

Zerga (2016), assessed credit risk management in NIB international Bank s.c. Accordingly the research found out that credit risk policy and strategy of the bank is not renewed timely, the bank has no procedure to detect borrowers associated with crime, internal risk rating system is not utilized to total portfolio and value and also existence of collateral is not checked periodically.

Mulat (2014), conducted research on Liquidity Risk Management Practices at Wegagen Banks.c, the analysis showed that the bank has been trying to establish independently organized liquidity risk management function and establishes asset liability management committee and put in place policies and limits through they are not effective in dealing with liquidity risks. Despitethe forgoing, the bank has weak management information system and there is a problem in monitoring and controlling of liquidity risk exposures to the bank.

Mitiku (2015), conducted research on risk management and its impact on financial performance of commercial banks in Ethiopia. The results of panel data regression analysis showed that credit risk management indicator, liquidity risk management indicator and operational risk indicator had negative and statistically significant impact on banks performance. Capital adequacy ratio had positive statistically insignificant impact on banks performance.

1.2. Statement of the problem

Banking business involves several different activity classes for instance, taking deposits, making loans, underwriting securities, trading, providing brokerage services, providing fiduciary services, advising on a range of corporate finance issues, offering mutual funds, providing services to hedge funds, Overall, banking activities create many unique risks, these risks are related to a bank's credits, liquidity, trading, revenues and costs, earnings and solvency issues (Tursoy, 2018).

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

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.

According to Mok and Saha (2017), ignoring strategic risks could place an institution in peril, a recent study published in the Harvard business review found that strategic risks were the most damaging type of risk companies faced the analysis found that 86 % of significant losses in market value over the last decade were caused by strategic risks. According to Adarkwa (2011), a significant part of many successful companies share price is not made up of tangible asset such as property and reserves but from the goodwill element. In a paper by the Economist Intelligent Unit (EIU) 2005 reputation risk is seen as becoming one of the emerging and increasingly important class of risk on the priority list of most managers.

To this end, as per the researcher's knowledge previous studies gave more emphasis to four types of risk (credit, liquidity, market, operational). The operational risk is non-financial risk defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or

from external events. This definition includes legal risk but excludes strategic and reputational risk (Basel Committee on Banking Supervision, 2011). There is no study specifically conducted about strategic risks and reputational risk but theoretically these are considered as bank risk in different books. Therefore, because of inconsistency on the results or findings and methodologies on the previous findings about financial risk management practice and also based on the above theory and empirical studies the researcher decided to assess strategic, reputational, operational and financial risk management practices in commercial Bank of Ethiopia.

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

1.3 Research objective

1.3.1 General objectives

The general objective of the study is to assess risk management practice of Lion International Bank.

1.3.2 Specific objectives

- ✓ To identify the major risks in Lion International Bank
- ✓ To examine the process of identification, in Lion International Bank.
- ✓ To examine the process of Risk assessment and analysis in Lion International Bank.
- ✓ To examine the process of Risk monitoring and evaluation in Lion International Bank.
- ✓ To examine the difficulties in implementing a risk management system in the bank.

1.4 Research questions

1. What are the main risks that Lion International Bank is exposed to?

2. How does lion international bank identify risks that it faces?

3. How does lion international bank assessment and analysis risks?

4. How does lion international bank monitoring and evaluation it's risk?

5. Whatarethechallengesthatdiscouragetheimplementationofriskmanagementsystemsinbanks?

1.5. Significance of the study

The researcher is of the opinion that the conclusions and suggestions that is going to be drawn from the data analysis will be crucial for the regulatory body and the banks that are the subject of the study in particular, as well as for society at large. The study will also be significant in the following ways: It will also be used by other banks to evaluate their operations in order to identify and take corrective action regarding potential risk exposure areas. It will also serve as reference material for anyone who will undertake a further study on the same or related topic. It will provide information for regulatory bodies on the status of the bank's risk management practices, and findings may also be used in policy formulation.

1.6. Scope of the study

Lion International Bank currently has 282 branches in the country out of which 89 branches are located in Addis Ababa. Conducting this research in all branches is unmanageable due to time and finance constraints. Due to this constraints this research will conduct in Lion International Bank head office and selected branches Employees located in Addis Ababa.

Lion International Bank performs various activities to realize its objectives successfully. Nevertheless this research will conduct to examine major risk management practice of the bank focusing on risk identification, measuring and analyzing risk and monitoring risk.

1.7 Limitation of the Study

The output of this research mainly affected on Lion bank employees understanding of risk Management practice of the bank. The study were subject to several shortcomings that probably limit the interpretation of the findings. Since the researcher delimited the scope only to head office and Selected Employees of Lion International bank, thus the ability to generalize to the entire population of Lion International bank may be adversely affected.

1.8 Organization of the Paper

The study would organize into five chapters. Chapter one discusses the background information, identifies the research gap and presents the research objective and significance of the study. Chapter two will presents the review of related theoretical literature. Chapter threepresents the type of research design, research approach and data analysis method. The fourth chapter present result and discussion. Chapter five present summary, conclusion and recommendations.

Chapter Two

2. Review of related literature

Introduction

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

2.1 Definition of Risk

The term risk originates from the Italian 'riskare', which means 'to dare' (Moles, 2016). The dictionary lists risk as both a noun and a verb. When used as a noun it has the connotation of danger, hazard, the chance of loss, an enterprise that can lead to profit or loss, the amount of a loss (hence the 'sum at risk'), a gamble or a bet. When used as a verb, risk means to expose oneself to the potential for loss, to make a bet or a wager, to gamble, to undertake an uncertain enterprise or venture. Both uses imply that there is the possibility of gains as well as losses.

Risk is also defined as anything that can create hindrances in the way of achievement of certain objectives. It can be because of either internal factors or external factors, depending upon the type of risk that exists within a particular situation. Exposure to that risk can make a situation more critical. A better way to deal with such a situation; is to take certain proactive measures to identify any kind of risk that can result in undesirable outcomes. In simple terms, it can be said that managing a risk in advance is far better than waiting for its occurrence (Kanchu. and Kumar, 2013).

There is also a psychological meaning to risk: it is that state of uncertainty or doubt in the face of a situation with beneficial and adverse consequences: gains and losses (Fischhoff, 2012).

Risk is the deviation of the expected outcome. In one way, risk can be classified as business risk and financial risk. Business risk arises from the nature of a firm's business which relates to factors affecting the product market. Financial risk arises from possible losses in financial markets due to movements in financial variables (Jorion, 1996).

Risk is unavoidable in every area of our life. All businesses, whatever their size and shape, in whatever markets they operate and no matter what products and services they provide, are

constantly faced with various types of risks. As argued by Osborne (2012), businesses can only prosper by successful risk taking.

Although the terms risk and uncertainty are often used synonymously, there is difference between the two. (Sharma, 2003) has indicated that

"… Uncertainty must be taken in a sense radically distinct from the familiar notion of Risk, from which it has never been properly separated. … The essential fact is that "risk" means in some cases a quantity susceptible of measurement, while at other times it is something distinctly not of this character; and there are far-reaching and crucial differences in the bearings of the phenomena depending on which of the two is really present and operating. … It will appear that a measurable uncertainty, or "risk" proper, as we shall use the term, is so far different from an un-measurable one that it is not in effect an uncertainty at all."

In short, Sharma defined only quantifiable uncertainty to be risk and provided the example of two individuals drawing from an urn of red and black balls; the first individual is ignorant of the numbers of each color whereas the second individual is aware that there are three red balls for each black ball. The second individual estimates (correctly) the probability of drawing a red ball to be 75% but the first operates under the misperception that there is a 50% chance of drawing a red ball. Sharma argues that the second individual is exposed to risk but that the first suffers from ignorance.

The emphasis on whether uncertainty is subjective or objective seems to us misplaced. It is true that measurable risk is easier to insure but we do care about all uncertainty, whether measurable or not. In a paper on defining risk, Holton (2004) argues that there are two ingredients needed for risk to exist. The first is uncertainty about the potential outcomes from an experiment and the other is that the outcomes have to matter in terms of providing utility. He notes, for instance, that a person jumping out of an airplane without a parachute faces no

risk since he is certain to die (no uncertainty) and that drawing balls out of an urn does not expose one to risk since one's wellbeing or wealth is unaffected by whether a red or a black ball is drawn. Of course, attaching different monetary values to red and black balls would convert this activity to a risky one.

One can attach probabilities to risk. It can be measured, estimated or calculated in some way. Therefore, risk can be quantified and expressed as a parameter, a number or a value. In terms of risk theory, the probability of an event occurring takes a value that can range from zero to one. An event is impossible if it has a probability of zero; an event is certain if it has a probability of one. Risk will be greatest if the gain- or loss-making event has a probability of one; that is, it is certain to occur (Moles, 2016).

In the simplest words, risk may be defined as possibility of loss. It may be financial loss or loss to the reputation/ image (Sharma, 2003). Risk is the possibility for danger, negatively unexpected circumstance to occur (Oxford English Dictionary, 2013). In most of economic publications, risk refers to the negative deviation from the plan (Maylor, 2010). Ghosh (2015), defines risk in banks as a potential loss that may occur due to some antagonistic events such as economic downturns, adverse changes in fiscal and trade policy, unfavorable movements in interest rates or foreign exchange rates, or declining equity prices. Every business faces risk, some are predictable and under management's control and some are unpredictable and hence uncontrolled. We can take risks as an opportunity to get higher returns because higher risks are associated with higher returns (Mehmood,and Zhang, 2010).

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

2.2. 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 preloss 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. Risk Management Processes

The following process shows that before risk can be managed, it must be identified. Once the risk is identified, measures are taken to measure its intensity or to evaluate the outcome of the risk, and assessment of the consequences is being done, control measures are then put in placeto avoid or reduce its intensity and after that good monitoring is being done to see whether the expected outcomes are as desired. Following these processes increases the likelihood and impact of positive events and decreases the likelihood and impact of negative events (Diego, 2013).

There is no a single management system that would fit for all banks. NBE requires each bank to develop its own comprehensive risk management system fitted to its need and circumstances.

i). Risk Identification

The first stage is to identify the risks to which the organization is exposed. Risk identification needs to be methodical, and to address the organization's main activities and their associated risks. Risk identification may be carried out via questionnaires, surveys, brainstorming sessions, or a range of other techniques such as incident investigation, auditing, root cause analysis, or interviews. The aim is to use staff expertise to identify and describe all the potential financial risks to which the organization may be exposed (Woods and Dowd, 2008). During the process of risk identification, the bank is able to study its activities and the places where its resources are exposed to risk.

ii). Risk Measurement

It refers to an assessment of the degree of the risk, which a particular transaction or an activity is exposed. Though the exact measurement of risk is not possible, the level can be determined with the help of rating models. Risk measurement comes in after the identification phase to give an understanding of the nature and level/extent of the risk so that it can be managed in an appropriate manner. This is because without risk measurement the intensity of effect or consequences that can result from the identified risk if neglected, cannot be easily analyzed.

A good risk measurement will determine the risk management techniques that have to be put in place to manage the said risk. Some of the risk measurement techniques include Value at Risk (VAR), duration analysis, sensitivity analysis, stress testing and scenario analysis.

iii). Risk Assessment

The risk assessment task is to understand what is at risk and what events could potentially cause harm or benefits. The risk is being assessed in terms of the severity of the impact, likelihood of occurring and controllability (Gray & Larson, 2006). When this is done, it helps the bank to know the chances that the risk might occur, and if it occurs, the impact it can have on the bank and how they can possibly control it.

Risk assessment is done by prioritizing the risk either by using risk analysis or risk evaluation (Williams et al.., 2006). This risk analysis is based on the likelihood and consequences. Likelihood depends on the probability how the risk will occur, and how frequently it will take place. On the other hand, consequences can be measured by looking at the effects on results or on the enablers of results (Williams et al, 2006). Knowing the frequency of occurrence of the risk and the effect it will have should it occur, gives the bank the base to know how important the risk is risk evaluation is then carried out when a good risk analysis has been undertaken. An evaluation is done against an appropriate risk-acceptance criterion to give a ranking (Williams et al.., 2006). For example, low (tolerable), Medium (low as reasonably practical) and High (intolerable) this ranking then determines the decision or standpoint of the bank but what should be noted it that a decision depends on each bank independently.

iv). **Risk Control or minimization**- can be done with the help of various tools such as diversification of the business, insurance and hedging, fixation of exposure ceiling, transfer the risk to another party.

v). **Risk Monitoring and Reviewing -** Keeping close track of risk identification measurement activities in light of the risk principles and policies is a core function in a risk management system. For the success of the system, it is essential that the operating wings perform their activities within the broad contours of the organization's risk perception (Ashan&Poonam, 2013). However, main elements of risk management include identifying, measuring, monitoring, and managing various risk exposures, these activities cannot be effectively implemented unless there is a broader process and system in place. The overall risk management process should be comprehensive embodying all departments or sections of the institution to create a risk management culture.

According to Jorion (2001), a comprehensive risk management system should encompass four components. These are active board or senior management oversight, establishing appropriate risk management environment and sound policies and procedures, maintaining an appropriate risk measurement, mitigating, and monitoring process; and adequate internal control.

2.4. Techniques of Risk Management

I. GAP Analysis

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

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

ii. Value at Risk (VAR)

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

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

III.Risk Adjusted Rate of Return on Capital (RAROC)

It gives an economic basis to measure all the relevant risks consistently and gives managers tools to make the efficient decisions regarding risk/return tradeoff in different assets. As economic capital protects financial institutions against unexpected losses, it is vital to allocate capital for

various risks that these institutions face. Risk Adjusted Rate of Return on Capital (RAROC) analysis shows how much economic capital different products and businesses need and determines the total return on capital of a firm (Crouhy et al. 2001).

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

v. Sensitivity Analysis: - It is very useful when attempting to determine the impact, the actual outcome of a particular variable will have if it differs from what was previously assumed. By creating a given set of scenarios, the analyst can determine how changes in one variable(s) will impact the target variable (Alam&Masukujjaman, 2011).

VI. Internal Rating System

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

2.5. 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 lion international bank context. Hence, this study aims to fill those gaps in the literature by focusing on the risk management practices in Lion international bank and linking the practices with the financial performance of the bank.

2.6 Risk in banking

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

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

2.7 Risk Management in Banks

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

Bessis (2002) characterizes risk management as the complete set of risk management processes and models permitting banking institutions to put in place different risk-based procedures and practices. According to him, risk management contains all the tools and methods necessary for measuring, monitoring and controlling different risks. Schroeck (2002) describes the concept of risk management as an active, strategic, and integratedprocess that encompasses both the measurement and the mitigation of risk, with the ultimate goal of maximizing the value of a bank, while minimizing the risk of bankruptcy.

Schroeck (2002) further explains that the said process is comprised of various steps including the definition, identification, categorization, measurement, analysis, and mitigation of a bank's risk exposures.

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

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

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

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

2.8 Types of Risks in Banking Sector

Risk at the apex level may be visualized as the probability of a banks' financial health being impaired due to one or more contingent factors. While the parameters indicating the banks' health may vary from net interest margin to market value of equity, the factor which can cause

the important are also numerous. For instance, these could be default in repayment of loans by borrowers, change in value of assets or disruption of operation due to reason like technological failure.

In the process of providing financial services, banks assume various kinds of risk both financial and non-financial (Adarkwa, 2011). Financial risks include credit risk, market risk and liquidity risk that are directly related to financial operations of banks. The non-financial risks on the other hand indirectly affect the financial performance of banks. These include strategic risk, political/country risk, reputational risk, operational risk etc.

2.8.1. Financial Risk

Risk arises from any business transaction undertaken by a bank, which is exposed to potential loss. This risk can be further classified into credit risk, liquidity risk and market risk.

i) Credit Risk

Greuning and Brajovic (2009), define credit risk as the chance that a debtor or issuer of a financial instrument whether an individual, a company, or a country will not repay principal and other investment-related cash flows according to the terms specified in a credit agreement. Inherent to banking, credit risk means that payments may be delayed or not made at all, which can cause cash flow problems and affect a bank's liquidity. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters .Credit risk includes both the risk that an obligor or counterparty fails to comply with their obligation to service debt (default risk) and the risk of a decline in the credit standing of the obligor or counterparty.

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

According to Okehi (2014), credit risk is the consequence of borrower's refusal or inability to pay what is owed when required. Credit risk therefore is the exposure faced by a bank as a result of a borrow default in meeting a debt obligation at maturity. The cumulative effect of these

defaults could result to financial distress of a bank if not managed appropriately. Banks are therefore expected to maintain their credit risk exposure within acceptable limit by maximizing their risk adjusted rate of return for the enhancement of their profit.

ii) Liquidity Risk

Liquidity risk refers to uncertainty regarding the ability of a firm to unwind a position at little or no cost, and relates to the availability of sufficient funds to meet financial commitments when they fall due.

Liquidity risk is the risk to earnings or capital related to a bank's ability to meet its obligations to depositors and the needs of borrowers by turning assets into cash quickly with minimal loss, being able to borrow funds when needed, and having funds available to execute profitable securities trading activities (Gup and Kolari, 2005). Liquidity risk is a major risk for the bank portfolio in that, in extreme cases it could result in bankruptcy.

iii) Market Risk

These financial risks arise because of possible losses due to changes in future market prices or rates. The price changes will often relate to interest or foreign exchange rate movements, but also include the price of basic commodities that are vital to the business (Stavroula, 2009).

According to Saunders and Cornett (2006), market risk can be defined as the possibility of loss to banks caused by the changes in market variables. It is the risk to the banks' earnings and capital due to changes in the market level of interest rates or prices of securities, foreign exchange, and equities, as well as the volatilities of those prices. Thus, interest rate risk and foreign exchange risk are the two types of market risk.

2.8.2 Non-Financial Risks

a) Strategic Risk:-The risk that occurs due to changes in behavior and activity of the economic and financial environment in which it operates. Stavroula, (2009) defines strategic risk as possibility that a failure at a firm, in a market segment, or to a settlement system could cause a "domino effect" throughout the financial markets affecting one financial institution after another or a "crisis of confidence" among investors, creating illiquid conditions in the marketplace. The ''domino effect'' refers to the risk hidden under the interconnection of several sectors in market and begins when the disorder of one firm or one segment of the market can affect and cause

failure in segments of or throughout the entire financial system. The interconnection of obligations among the same institutions and with the cash markets exacerbates that risk.

b) Reputational Risk:-The potential that negative publicity regarding the bank's business practices, whether true or not, will cause a decline in the customer base, or revenue reduction.

c) Operational risk: - Operational risk is a financial risk because of potential operational breakdowns in terms of people risk, process risks and technology risks. These include frauds, inadequate computer systems, control failures, operation failures, or natural disasters etc.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events, including legal risk. It is the potential financial loss because of breakdown in day-to-day operational processes. It can arise from failure to comply with policies, laws, and regulations, from fraud or forgery. In order to mitigate this, internal control and internal audit systems are used as the primary means (Basel Committee on Banking Supervision, 2003).

Since operational risk is an event risk, in the absence of an efficient tracking and reporting of risks, some important risks will be ignored, there will be no trigger for corrective action and this can result in disastrous consequences. Developments in modern banking environment,

2.9. 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.

2.10 Review of Empirical Literature

Khalid and Amjad (2012) conducted a research on the risk management in Islamic banking in Pakistan. The authors use the same model suggested by Al-Tamimi and Al-Mazrooei (2007) of risk management practices. The results indicate that Islamic banks are somewhat reasonably efficient in managing risk where understanding risk and risk management risk monitoring and credit risk analysis, are the most influencing variables in risk management practices.

Hassan, (2010) the researcher conducts this research with the title of a comparative study of Handelsbanken and Swanbank; how risk has been managed during the last decade. In this thesis the authors striveto investigate the risk management phenomenain the bankingsector by conducting a longitudinal comparative study in two different banks. In a broader perspective to understand the phenomena the authors depart from theoretical framework that recognizes the social and cultural elements of risk. However, to be more specific the thesis narrows down its analysis to three main variables that come under the realm of this discussion which are; how banks organizing for risk, how they measure it and the role of IT and human judgment. This study contributes to the banking sector by providing a road map of how successful banks manage risk. It highlights that the risk question should be addressed strategically and deemed to be a continuous phenomenon.

Hassan (2009) seeks to identify the risks posing the greatest exposure for Islamic banks in Brunei Darussalam and to examine the effectiveness of risk management techniques utilized in these banks. The results of the study reveal that the three major risks affecting the banks are foreign-exchange risk, credit risk and operational risk. Also, Islamic banks are reasonably efficient in managing risk; and risk identification, and risk assessment and analysis are the most influencing variables in risk management practices.

Rekha (2004) Risk management in commercial banks (A case study of public and private sector banks) Banks is in the business of managing risk, not avoiding it. To the researcher, Risk is the fundamental element that drives financial behavior. Without risk, the financial system would be vastly simplified. However, risk is omnipresent in the real world.Financial Institutions, therefore, should manage the risk efficiently to survive in this highly uncertain world. The future of banking will undoubtedly rest on risk management dynamics.

FasikaFirew (2012) analyzes the operational risk management practices of selected Ethiopian Commercial banks by taking in to account the operational risk factors (Loss events) and their effect on entire banks performance. The results of the study reveals that the management should pay attention to those contributory operational risks so as to manage the operational risk effectively and efficiently, particularly, to operational risk management tools as the extracted factors has shown. Also the importance of awareness creation and accurate on time capturing of internal loss data are in consistent with factor analysis findings of management supervision and follow-up and capturing of internal loss data as both are among the extracted factors.

Nigussie (2016), assessing determining factors of best risk management practice of Ethiopian commercial banks. Regarding the hypothesis testing the result of the regression analysis shows that: Risk assessment and analysis has significant effects on risk management, Risk identification has insignificant effects on risk management, and risk monitoring has insignificant effects on risk management. Risk Evaluation has significant effects on risk management. Understanding risk Management has significant effects on risk management, and Required Policy has significant effects on risk management.

Ayalew (2014), conducted research on risk management in Ethiopian Private CommercialBanks. The researcher excludes the government banks so that commercial bank of Ethiopia risk management practice is not assessed and also the researcher only assessed the financial risks.The result of the study revealed that all banks have risk management structure in place, they all developed written policies and procedures for risk management. The study also revealed a number of risk management weaknesses. There is lack of capacity in understanding risk management policies and procedures at all level. The most difficulties that banks are currently facing in managing their risks are weak management information system, lack of competent and experienced staffs, and lack of exposure to the outside world.

Ephream (2016), conducted research on risk management and its effect on financial performance of commercial banks in the case of Ethiopian commercial banks. The study focus on credit, operational, liquidity risk. The results of panel data regression analysis showed that credit risk management indicator and operation risk management indicator had negative and statistically significant impact on banks performance. However, liquidity risk management indicator had negative and statistically insignificant impact on the banks performance

Tibebu (2017), assessed liquidity risk management case study in Bank of Abyssinia. The findings of the study revealed that the bank experience seasonal fluctuation in the sources of funds which exposed to liquidity risk. The bank has strong side in preparing strategies, procedure, measurement & reporting systems. But, limited source of funds and lack of coordination between departments face the bank to unable to meet short term obligation.

2.11 Summary and Knowledge gap

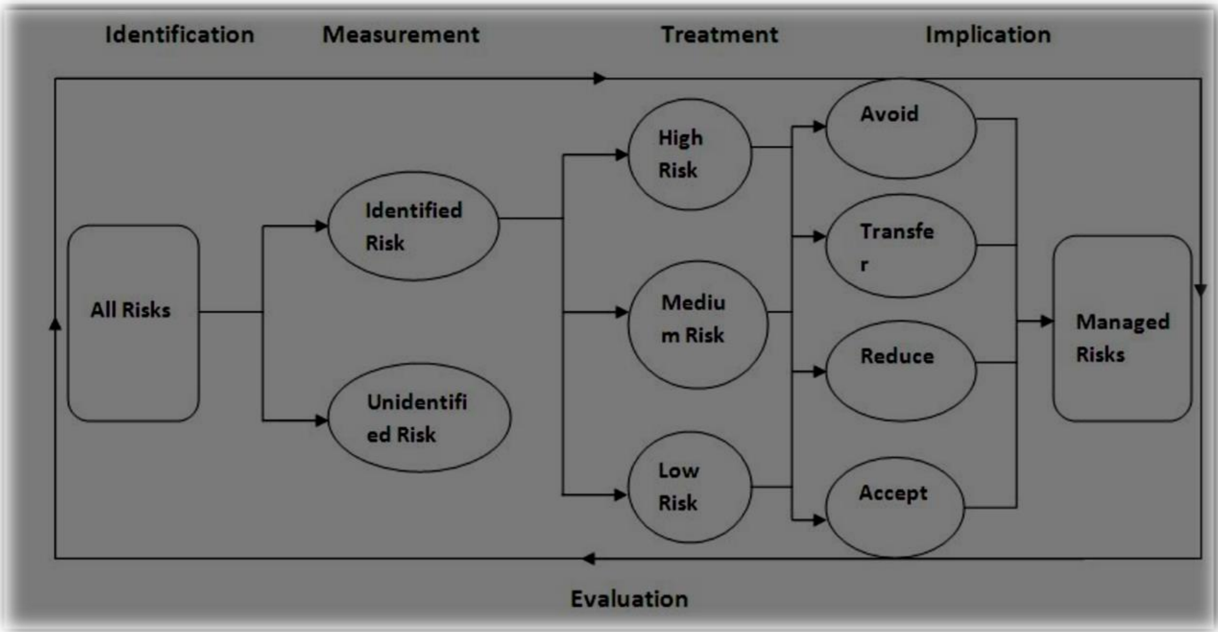
Few studies offer empirical support for the risk management procedures used by Lion International banks in Ethiopia. To the researcher's knowledge, no research has been done to look into Lion International banks' risk management strategies with regard to the identification, measurement, monitor, evaluation, and control of risk in the Bank. Almost all earlier research concentrated on financial risks, specifically operational, liquidity, market, and credit risks. Strategic and reputational risk are not included in operational risk, which is a nonfinancial risk. Banks could theoretically pose both financial and nonfinancial concerns. In order to cover this vacuum in the literature, the researcher also analyzed the financial risks in the study's nonfinancial risks (operational, strategic, and reputational risk) management approach and in addition to this the researcher assessed the financial risks in Lion International bank.

2.12 CONCEPTUAL FRAMWORK

ThisresearchersoughttoassesshowLionInternationalBankidentifies,measures,monitors,controls,andassessesriskfrominceptiontosettlement.Duringtheidentificationphaserisksmustbeidentifiedfromdifferentperspectives.Inthemeasurementphase,allpossiblerisksshouldbemeasured.Oncepotentialriskshavebeenidentifiedandmeasured,responseandactionplansshouldbedeveloped.Ensurerisksaremanagedanddecisionsaremadeinatimelymanner.Throughthemonitoringandevaluationoftheproc

essineachphase,lessonslearnedshouldbeultimatelydrawnanddocumentedforreference.Indoingso,th eboardmustdevelopappropriatestrategies,instrumentsandtechniques to manage risks.

Figure 2.1: Steps in Risk Management Process



Source: Ir. Tony Van Gestel and Bart Baesens, 2009

CHAPTER THREE

3. Research Methodology

3.1 Introduction

This chapter focuses on the research methodology, which combines the numerous study methodologies with a view to fulfilling the study's goals. Considerations including the study methodology, research design, research population, sample size, sampling strategy, data collection method, data analysis, and ethical consideration are all taken into account.

3.2. 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) will use to be for this study.

3.3. 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 will usea mix of quantitative and qualitative research designs.

According to Burns and Bush (2002), research design is defined as a set of advance decisions that make up the master plan specifying the methods and procedures for collecting and analyzing the needed information. Some of the main types of research design are exploratory, explanatory, descriptive and cross-sectional. To address the research objectives this study adopt descriptive

design. Descriptive research enables the researcher to provide an accurate description of observations of phenomena as the objective of most descriptive research is describing the state of affairs at the time of study.

3.4 Sampling method

According to Lion International bank Human resource data the current total number of employees working in the head office risk and compliance department is 15 and 120employees based on their working experience. More experienced employees were selected because they have more knowledge about their working environment. As a result the researcher used purposive sampling technique as obtaining the required data from this number of respondent is quit manageable. Therefore employees in head office risk and compliance department and selected branch employees were participated in this research.

3.5. Sampling Technique

How samples are selected is critical. In this study, the researcher were use 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 select Lion International bank managers, risk managers, and employees.

3.6 Data collection instruments collection

The data was collect by using questionnaires. The questionnaire incorporate a Likers scale measurement. It is a rating scale, which requires the respondents to indicate a degree of agreement or disagreement with each of a series of statements or questions. Questionnaires are an important instrument for research as a tool for data collection. The use of questionnaires was justified to the extent that questionnaires are effective way of collecting information from a large literate sample in a short span of time and at a reduced cost than other methods. The questionnaires made use of closed ended questions to ensure consistency, easy coding, and data analysis.

3.7 Data Analysis Method

Greener (2008) stated that in most types of researches, the process of data analysis involves the following three steps: first preparing the data for analysis, then analyzing the data and finally, interpreting the data. This research paper used descriptive method of data analysis on the data collected through questionnaires. The data gathered through questionnaires was analyze and present through descriptive method of data analysis. As this study constitutes qualitative data that will collect via a questionnaire, a descriptive data analysis method is going to be use in order to describe and analyze the collected data.

3.8. Reliability and Validity of the Study

Reliability is concerned with the question of whether or not a result is stable (Bryman and Bell,2007). The idea of reliability is important for measuring. The research method carefully explained throughout this research. The sample selection based upon non probability. The people are selected because of their positions of responsibility in this area. The respondents are free to answer the questionnaire without stress, which would have negative effects upon the reliability of this study. This study is possible to reproduce with consistent results.

Validity is concerned with “the integrity of the conclusions that are generated from a piece of research” (Bryman and Bell, 2007, p.41). The process of survey, the questionnaire sent to the pilot to ensure the questionnaire is understandable and acceptable. In addition, the empirical data analyzed with SPSS for windows, which is possibly the most widely used computer software for the analysis of quantitative data. Therefore, this research can be safely said to be highly 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 will not expos 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

4.1. INTRODUCTION

This chapter analyzes, discusses, and interprets the data acquired during the investigation. The research is mostly based on primary data acquired through a questionnaire filled out by 135 respondents from relevant officials. The data has been evaluated with references to the study's objectives, as stated in the first chapter. To make the data easier to understand, it is presented in tables. In this case, 135 structured questionnaires were prepared, and distributed to Lion International bank workers. Hence, the questionnaires were all filled, and collected. The analysis of data gathered is presented as tabular form below.

4.2. Demographic Profile

This section covers the demographic information for the survey participants. This section briefly presents and analyzes their gender, age, educational achievement, and employment experience. The questionnaire was issued to 135 Lion International Bank personnel who were specifically chosen for their experience. Out of the 135 questionnaires, all valid responses were collected.

Table 1 Demographic Profile

Demographics		Frequency	Percentage
Gender	Male	58	43%
	Female	77	57%
	Total	**135**	**100%**
Age	20 – 30	50	37.1%
	31 – 40	70	51.8%
	41 – 50	15	11.1%
	Total	**135**	**100%**
Service Year	Diploma	7	5.2%
	BA/BSc Degree	87	64.4%
	Master's Degree	41	30.4

	Total	135	100%
Education	Under 1 year	15	11.1%
	1 -5	42	31.1%
	6 – 10	58	43%
	Over 10	20	14,8%
	Total	**135**	**100%**

Source own survey, May 2023

The respondents' gender distribution is depicted in the table above. From the 135 sample, it revealed that female respondents are somewhat more numerous than male respondents. 43 % and 57 % of respondents were male and female, respectively. This could indicate that there are more female employees than male employees in the bank.

The majority of respondents, 51.8% of all respondents, fall into the age range of 31 to 40, as the table above demonstrates. In addition, 37.1% of respondents were between the ages of 20 to 30, 11.1% were between the ages of 41 to 50. This indicates that the bank is dominated by employees of this age group who are more knowledgeable about risks, their consequences, and the need for risk management.

As displayed above, in the table every one of the respondents are taught. Among the respondents, 87 (64.4%) have a first degree, while 41 (30.4%) have a master's degree and 7 (5.2%) have a diploma. It is safe to say that all of the people in the study are educated and may have a basic understanding of how risk management is used in their bank.

Concerning to respondents work experience, 15(11.1%) have under 1 year work experience, 42(31.1%) have 1-5 years' work experience, 58(43.0%) have work experience of 6-10 years one and the remaining 20(14.8%) were over 10 years of experience in the bank. As majority of respondents have more than 5 years' service in the bank they can provide credible information to the research questions.

4.3 MAJOR TYPES OF RISK IN THE BANK

Banks manage a wide range of internal and external risks to lessen their potential impact on profitability and overall performance. Anyway the various kinds of dangers don't similarly affect banks productivity and execution. Therefore, there is a possibility that some risks will have a devastating impact, while others will only have a modest impact on the performance and profitability of banks. Banks are better able to prioritize risks and develop effective strategies for risk mitigation when they are aware of the severity of the various types of risks. The following table displays the respondent's response regarding the severity of the various risks that the bank face.

Table 2. Types of risk

		High risk		Moderate risk		Low risk		
No	Risk Type	Frequency	Percentage (%)	Frequency	Percentage (%)	Frequency	Percentage (%)	Total
1	Credit Risk	61	45.2%	47	34.81%	27	20.00%	135
2	Liquidity Risk	63	46.67%	52	38.52%	20	14.81%	135
3	Market Risk	42	31.11%	53	39.26%	40	29.63%	135
4	Operation Risk	37	27.41%	58	42.96%	40	29.63%	135
5	Strategic Risk	25	18.52%	71	52.59%	39	28.89%	135

Source own survey, May 2023

As shown in table respondents rated liquidity risk as witnessed by majority respondent's 63(46.67%) of the respondent says high risk on the liquidity risk and the remains 63(46.67%) and 20(14.81%) of the respondent says moderate and low risk respectively. Saunders and Cornett (2008) define liquidity risk as the unexpected raise in withdrawals by depositors that may pursue banks to liquidate their assets in the shortest time period. The liquidity risk arises due to several reasons including a rapid increase in the sudden demand of the bank's depositors and an inadequate market depth or market disruption. Thus inadequate liquidity can induce the bank towards liquidity insolvency and devoid of being capital insolvent if managers are negligent to manage liquidity risk properly.

Another risk in the bank is credit risk as majority of respondents 61(45.2%) confirmed that credit risk is also a major risk that the bank faces and the remaining 47(34.8%) and 27(20%) of the respondent says moderate and low risk respectively. Credit risk emerges when a bank is failed to recover the lending money from a borrower, counterparty, or an obligatory. The result indicates that credit risk is a major risk in the bank that may adversely affect the bank profitability and performance if not managed properly. Therefore credit risk is a top priority for the bank that requires effective identification analysis and monitoring of the most trustworthy loan applicants.

Respondents rated market risk, Strategic risk and operation risk are moderate with a response rate of 53(39.26%), 71(52.59%) and 58(42.96%) respectively. As these risks cause substantial reduce in the bank profitability managers need to address them adequately in order to minimize the potential risks.

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

4.4 Risk management policy and Training for employees

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.

Schroeck (2002) explains risk management practice as a process comprised of various steps including the definition, identification, categorization, measurement, analysis, and mitigation of a bank’s risk exposures. It can be summarized that risk management in banks is a complex process, beginning with the formulation of a framework to identify measure and

analyze risks and then implementation of certain measures to minimize or control inevitable losses. To this end respondents response to questions related to the extent of risk management in the bank is presented analyzed in this section.

Having a documented risk management policy and guideline can help financial institutions like Lion bank to provide guidance and training regarding the management of risk to support the achievement of the banks 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 and providing training to the employees. The following table compiled results obtained from respondents.

Table 3. Risk management policy and Training for employees

No	Statement	Level of agreement	Frequency	Percentage (%)
1	The bank has established clear risk management policies and procedures.	Strongly agree	54	40
		Agree	47	35
		Neutral	34	25
		Total	**135**	**100**
2	The bank risk management policies and procedures are documented and provide guidance to employees on risk management.	Strongly agree	45	33.3
		Agree	59	43.7
		Neutral	31	23
		Total	**135**	**100**
3	Training programs for employees are promoted and implemented by banks in the area of risk management.	Strongly agree	52	38.5
		Agree	62	46.1
		Neutral	21	15.1
		Total	**135**	**100**
4	Employees were frequently briefed on risk management options.	Strongly agree	38	28
		Agree	70	52

		Neutral	27	20
		Total	**135**	**100**
1	There is significant board and senior management involvement in the risk management in your bank.	Strongly agree	34	25
		Agree	74	55
		Neutral	20	15
		Disagree	7	5
		Total	**135**	**100**
2	Effective risk management is one of the main objectives of the bank.	Strongly agree	45	33.3
		Agree	63	46.7
		Neutral	18	13.3
		Disagree	9	6.7
		Total	**135**	**100**
3	The bank adopts multiple risk measurement methodologies to capture risk	Strongly agree	27	20
		Agree	81	60
		Neutral	20	15
		Disagree	7	5
		Total	**135**	**100**
4	The bank regularly prepares periodic report to the Board of Directors and senior Managements about risk exposures of the bank.	Strongly agree	14	10
		Agree	90	66.6
		Neutral	23	16.7
		Disagree	9	6.7
		Total	**135**	**100**

Source own survey, May, 2023

The table above depicted respondents‟ level of agreement on the established clear risk management policies and procedures. The majority of 40% of respondents strongly agreed that clear risk management rules and procedures had been implemented. Similarly, 35% of those

polled agreed and a lower proportion of individuals (25%) opted to stay impartial. And, when it comes to the availability of a documented risk management policy/guideline in the bank, the respondents responded as follows: 33.3% strongly agreed, 43.7% agreed, and 23% preferred to remain neutral.

We can learn from the above finding that Lion International 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 Lion International 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.

As indicated in the table, the majority of participants (46.1%) believe that risk management training is promoted and provided by the bank. Similarly, 38.1% of respondents strongly agreed with the topic and the remaining 15.4% are unconcerned about the subject at hand. The results clearly show that training programs are being encouraged and staff members of the bank are being provided training in connection with risk management. The outcome clearly demonstrates that the bank's staff receives risk management training by their experience and positions and that training programs are encouraged.

The table above shows that the respondent says about frequently briefed on risk management options to the employee majority of the participants 52% agree that frequently briefed on risk management options to the employee been given by the bank in the area of risk management. Similarly, 28% of respondents strongly agreed with the topic. The remaining 20% are unconcerned about the given question. The outcome shows that the bank has been teaching its employees about risks and risk management strategies. When employees are well-informed about risks, it is simple to implement mitigation procedures because everyone is familiar with them.

As clearly seen above in the table, the majority of respondents (55 %) agree that the bank has significant board and senior management involvement in risk management. Also 25% strongly agree when they asked. Accordingly, 15% are neutral and the remains 5% are disagreed. This indicates that the bank has significant board and senior management involvement in risk

management. The Board has ultimate responsibility for Risk Management and Internal Control. It is responsible for deciding the Company's risk strategy and business model and it should understand and agree the level of risk that goes with this.

Table 8 revealed that out of the total respondents 46.7% of them are agree and 33.3%of them are strongly agree that effective risk management is one of the main objectives of the bank. The remaining 13.3% and 6.7% are neutral and disagree on the raised question. From the above result, we can learn that risk management is one of the main objective of the bank.

The question distributed to the respondents if the bank adopts multiple risk measurement methodologies to capture risk majority of them 60% and 20% are agree and strongly agree, the remains 15% and 5% are neutral and disagreed respectively. From this we conclude that the bank has uses multiple risk measurement methodology's to capture risk this helps the bank to find out a solution and protecting the bank from arising risks.

As clearly depicted above in the table majority of respondents (66.6%) agree that the bank regularly prepares periodic report to the Board of Directors and senior Managements about risk exposures of the bank. Similarly 10% of the respondents shows there strong agreement to the question. The remaining 16.7% and 6.7% of employees who participated in the survey showed their neutral and disagreed stance. The purpose of preparing the report to the board of directors and top management is to find out an immediate solution for the risks that the bank has face.

4.5 RISK IDENTIFICATION

The purposeful and methodical endeavor to identify and record the Institution's significant risks is known as risk identification. The goal of risk identification is to understand what is at risk within the context of the Institution's explicit and implicit objectives, and to generate a comprehensive inventory of risks based on threats and events that could prevent, degrade, delay, or enhance achievement of the objectives. To ensure that Institutions manage risk effectively and economically, risk identification standards were developed. The table below shows the scope of risk detection at Lion International Bank.

Table 4. Risk identification

No	Statement	Level of agreement	Frequency	Percentage (%)
1	The bank has developed and applied procedures for the systematic identification of risks.	Strongly agree	40	29.6
		Agree	61	45.2
		Neutral	20	14.8
		Disagree	14	10.4
		Total	**135**	**100**
2	The Bank conducts risk identification in a compact and systematic way.	Strongly agree	27	20
		Agree	74	55
		Neutral	20	15
		Disagree	14	10
		Total	**135**	**100**
3	The bank apply the most sophisticated techniques for risk identification.	Strongly agree	34	25
		Agree	61	45
		Neutral	27	20
		Disagree	14	10
		Total	**135**	**100**
4	The bank has frequent communication with customers to identify its main risk	Agree	36	26.7
		Neutral	18	13.3
		Disagree	63	46.7
		Strongly Disagree	18	13.3
		Total	**135**	**100**

Source own survey, May, 2023

As seen in the table above, a slight majority of participants in the survey agreed (45.2%) when asked if their bank conducts a systematic identification of potential risks facing it. Similarly, 29.6% of participants says strongly agreed on the concerning issue,while 14.8% and 10.4%are neutral and disagree respectively on their bank conducts a systematic identification of potential risks facing it. The result tells us that Lion 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 and guidelines incorporated with the latest developments in the area can survive competition in the market as well as failures.

As indicated in the table, the majority of participants (55%) Agreed that the bank conducts risk identification in a compact and systematic way. Similarly, 20% of respondents strongly agreed with the topic, 15% are unconcerned about the subject at hand and the remaining 10%disagreed on the concerned issue. As majority of the respondent agreed that the bank conduct a compact and systematic way of risk identification. And the respondent says about that the bank apply the most sophisticated techniques for risk identification majority of the participants 45% agree that the bank uses the most sophisticated techniques of identifying risk that it face. Similarly, 25% of respondents strongly agreed with the topic the remaining 20% and 10% are neutral and disagreed about the given question.

The above table shows the level of the respondents' agreement on the bank has frequent communication with customers to identify its main risk. The majority of the respondents 46.7% disagreed that the bank has communication with customers to identify its main risk. Accordingly, 13.3% are strongly disagreed question raised, 26.7% agreed on the concerned issue and the remained 13.3% neutral. From the data majority of the respondent disagreed on the concerned issue so the bank should communicate with customers in various mechanisms to identify its risks to find a solution and to satisfy the customers and to be competitive in the market.

4.6 RISK ASSESSMENT AND ANALYSIS

Each source of pure risk that is found should be evaluated. At this level, the risk can be classified based on how frequently related losses are anticipated to occur. In addition to evaluating loss frequency, it is useful to analyze the extent or degree of the loss. Consideration should be made to the most likely losses that may occur. The following table represents the bank risk analysis and measurement.

Table 5. Risk assessment and analysis

No	Statement	Level of agreement	frequency	Percentage (%)
1	The bank assesses the probability of occurrence of key risks	Strongly agree	36	26.6
		Agree	63	46.7
		Neutral	27	20
		Disagree	9	6.7
		Total	**135**	**100**
2	The Bank use quantitative risk assessment methods.	Strongly agree	40	29.6
		Agree	61	45.2
		Neutral	27	20
		Disagree	7	5.2
		Total	**135**	**100**
3	The Bank use qualitative risk assessment methods.	Strongly agree	34	25.2
		Agree	54	40
		Neutral	34	25.5
		Disagree	13	9.6
		Total	**135**	**100**
4	The Bank strive to prioritize key risks	Strongly agree	27	20
		Agree	68	50
		Neutral	20	15
		Disagree	20	15
		Total	**135**	**100**

Source own survey, May, 2023

The table above summarized the respondent’s level of agreement about Lion International bank's practice of frequently assessing the possibility of occurring risks. 46.7 % of participants agree that their bank engages in frequently assessing the possibility of occurring risks. Similarly, 26.6% of participants show strongly agrees when asked. The remaining 20% and 6.7% indicated their neutrality and disagreed respectively to the raised question. We may conclude from the results acquired and displayed above that Lion International Bank regularly

assesses the potential of arising risks. A bank that is prepared for the worst can plan and design cop-up and mitigation systems that might subsequently potentially lessen the harm caused by risks.

As indicated on the above table a considerable number of employees who participated in this survey, that is, 45.2% responded that they agree that their bank use quantitative risk assessment methods. Similarly, 29.6% of respondents show their agreement. The remained 20% neutral and only a smaller which is 5% of the respondents disagreed to the question posed. Accordingly, when it comes to qualitative analysis majority 40% of the respondents participating in the survey agreed that their Bank use qualitative risk assessment methods. Accordingly, 25.2% are strongly agree on the question. The remaining 25.2% and 9.6% of participants show their neutrality and disagreed respectively to the issue. According to the findings, Lion International Bank has built qualitative and quantitative risk assessment procedures. A lot of successful risk evaluations linked to safety use a combination of qualitative and quantitative information to construct a pretty thorough risk analysis. A bank that uses both ways to analyze risks can produce a more effective risk management strategy.

The issue posed on the bank's endeavor to prioritize critical risks was answered by the majority of respondents (50%) who agreed, 20% who strongly agreed, and 15% who disagreed and neutral on the stated subject. The result reveals the availability of the culture of strive to prioritize main risks/risk appetite in Lion International bank. 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.

4.7 Risk monitoring and evaluation

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

Table 6. Risk monitoring and evaluation

No	Statement	Level of agreement	frequency	Percentage (%)
1	Monitoring the effectiveness of risk management is an integral part of regular management reporting	Strongly agree	27	20
		Agree	81	60
		Neutral	19	13.3
		Disagree	9	6.7
		Total	**135**	**100**
2	The level of control by the bank is appropriate for the risks that it faces	Strongly agree	32	23.8
		Agree	65	48.1
		Neutral	27	20
		Disagree	11	8.1
		Total	**135**	**100**
3	Your bank is able to accurately evaluate the costs and benefits of taking risks	Strongly agree	36	26.7
		Agree	57	42.2
		Neutral	28	20.7
		Disagree	14	10.4
		Total	**135**	**100**

Source own survey, May, 2023

Monitoring the effectiveness of risk management is an integral part of routine management reporting in the bank as witnessed by respondent's response 60% agreed, 20% strongly agree and the remain 13.3% and 6.7% are neutral and disagreed on the raised question. This indicates that risk treatment responses and effectiveness of risk management is regularly evaluated and reported in the bank.

The table above summarized the respondent's level of agreement about the level of control by the bank is appropriate for the risks that it faces. 48.1% of the participants are agreed and 23.8% of them are strongly agreed that the bank level of control for the risks that it face is appropriate, the remaining 20% and 8.1% are indicated their neutrality and disagreed respectively to the raised question. The data indicated that Lion International bank has a good level control for the risk that it faces.

The question asked to the respondents on the bank is able to accurately evaluate the costs and benefits of taking risks 42.2% agreed, 26.7% strongly agree, 20.7% remains neutral and only a very smaller number (10.4%) among the participants prefer to remain disagreed on the question asked. This indicates that Lion International bank has accurately evaluated the costs and benefits of taking risks.

4.8Challenges of Risk management in the bank

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

Table 7. Challenges of Risk management in the bank

No	Statement	Level of agreement	frequency	Percentage (%)
1	Lack of common understanding of risk management among all staffs of the bank.	Strongly agree	7	5
		Agree	64	47.5
		Neutral	27	20
		Disagree	37	27.5
		Total	**135**	**100**
2	The bank has Insufficient risk management processes, procedures, and tools.	Strongly agree	27	20
		Agree	56	41.7
		Neutral	18	13.3
		Disagree	25	18.3
		Strongly Disagree	9	6.7
		Total	**135**	**100**
3	There is inadequate number of staff working in risk management department.	Strongly agree	41	30
		Agree	52	38.8
		Neutral	27	20
		Disagree	15	11.3
		Total	**135**	**100**
4	There is lack of strong leadership in the risk management function.	Strongly agree	8	6.3
		Agree	34	25

		Neutral	20	15
		Disagree	59	43.8
		Strongly Disagree	14	10
		Total	**135**	**100**

Source own survey, May, 2023

The above table shows the level of the respondents' agreement on Lack of common understanding of risk management among all staffs of the bank.The majority of the respondents 47.5% agreed that the Lack of common understanding of risk management among all staffs of the bank, 5% of the respondents says strongly agree. Accordingly, 27.5% says disagreed to the question raised and the rest 20% remained neutral. Based on the data obtained it is possible to say that Lion International bank has Lack of creating a common understanding of risk management among all staffs.

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 Lion international bank.

The finding indicated the prevalence of sufficient risk management processes, procedures, and tools in Lion International bank. 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 number of damages caused by risks.

As shown in table 4.6 summarized the respondent's level of agreement about Lion International bank has inadequate number of staff working in risk management department. 39.8% and 30% of the participants agreed and strongly agreed on the bank has inadequate number of staff working in risk management department. The remains 11.3% of the participants are disagreed and 20% of the participants are neutral.

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 Processes Work better for the organization.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATIONS

5.1. CONCLUSION

Taking risks is something that goes hand-in-hand with banking business. After all, profits come from successful risks management. But if risks aren't managed well, it can cause problems and lead to failure. This study looked into the risk management practices of Lion International Bank, which is an important aspect of banking, even though it comes with its difficulties. It also revealed the effects of risk management on the bank's performance.

Lion international Bank, like other financial organizations, faces a load of financial and non-financial risks. So, they've got a risk management system in place that meets the requirements of the National Bank of Ethiopia and includes board and senior management oversight, policies, procedures, and limits; monitoring and a management information system (MIS); and internal control. In other words, they have a strategy for dealing with varies risks. This research looked into the risk management practice of Lion International Bank by figuring out the types of risks, risk management methods and practices employed. A questionnaire was distributed to the bank's staff to get primary data.

The bank uses both quantitative and qualitative risk analysis methods to assess risks. The finding of the study also suggests that the bank assesses the probability of occurrence of key 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 banks has established clear risk management policies and procedures with the guideline of National bank of Ethiopia (NBE) and also have culture of documenting risk management procedures and processes for better understanding the changes in the process of risk management.

At Lion International Bank, staff members are given regular training and support for risk management. The bank's management keeps track of how well risk management works by monitoring and evaluating it, and they figure out how much risk they are exposed to. Additionally, the bank puts out an internal financial Risk Report for their executive and

supervisory boards. They also compile ad-hoc reports for their own use and for external regulators, and send them out to the regulators on a regular basis.

According to the finding majorities of the respondents agree that risk management practice by the bank is not challenging issue and the other respondents agree with risk management by the bank is challenging issue and list some points which are rapid growth and expansion of the bank, ways of risk management process by itself, social media, political situation, volatility of business, government intervention, poor internal control are listed as some challenges of the bank.

5.2 RECOMMENDATIONS

The findings of this research identify a lot of practices that Lion International bank is implementing as part of its risk management program. Benefits have been realized as a result of the bank's efforts in controlling its financial and non-financial risks. Risk management has its difficulties at the bank. As a result of the research findings, the following recommendations are expected to play a critical role in strengthening risk management practices and minimizing bank problems during risk management practices.

The bank should increase communicate with the customer, Effective communication skills reduce misunderstandings and build empathy and understanding what the customers people, especially in formal relationships, where interactions are often brief and impersonal. Here're a few major ways in which effective communication helps the bank to create a better relationships with customers and build trust with customers. Creating a good communication will increase the profitability of the bank.

Likewise, the bank should give more emphasis on awareness creation to its employees in the area of risk management, strength their awareness on banks risk monitoring process, and improve employees' awareness concerning risk identification and risk management techniques of the bank. Moreover, to stay ahead of the competition at all times, the bank need to safe guard that there is a constant monitoring and evaluation process to ensure the integrity of risk management practice and controls systems.

Training has to be considered on the activity of risk identification techniques to the employees by their position, when employees undergo training; it improves their skills and

knowledge about risk management techniques and builds their confidence in their abilities. This will improve their performance and make them work more efficiently and effectively. Also help to build a little awareness regarding the application of gap analysis and duration gap analysis to identify risks at individual level.

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 banks risk capabilities, such as where it stands in terms of strategy, people, processes, technology, and knowledge.

Last but not least, the current study might be expanded in the future by include additional banks in the country or doing a comparison across banks to get more diverse results. It is also beneficial to learn about the risk management methods of various banks in the industry. Other techniques, such as economic conditions, legislation, and market rivalry, might yield intriguing and different outcomes.

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Appendix:

ST MARY UNIVERSITY

SCHOOL OF GRADUATES STUDIES

Questionnaire prepared for employees of Lion International Bank

This questionnaire aims to gather information on Lion International Bank's risk management practices. The data or information thus collected will serve as the primary data for my dissertation that I am conducting as part of fulfilling the requirements for my Master's Degree in Accounting and Finance. The data collected will be used for research purposes only. Therefore, your ideas and comments will be appreciated and treated confidentially. It is not necessary to enter your name. Please put a check in (√) if you wish .Also, write your opinion in the space provided for questions that require additional opinion. No need to provide your name. The information provided will be used only for this study and all information provided will be treated confidentially.

Thanks for your cooperation!!

I. Background Information

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

1. Gender: Male ☐ Female ☐

2. Age: 20 – 30 ☐ 31 – 40 ☐ 41- 50 ☐ More than 51 ☐

3. Level of education

A. Certificate ☐ B. Diploma ☐ C. BA/BSc Degree ☐

D. Master's Degree ☐ E. Other: Please Specify-----------------------

4. over all banking service years in the Bank

Under 1year ☐ 1– 5years ☐ 5 – 10years ☐ over 10years ☐

II. Please Indicate your level of agreement with the following perception questions related to key LIB risks.

		Risk Level		
No	**Risk Type**	**High Risk**	**Moderate Risk**	**Low Risk**
1	Credit Risk			
2	Liquidity Risk			
3	Market Risk			
4	Operation Risk			
5	Strategic Risk			

Part III: Please indicate your level of agreement to the following perception questions related to LIB risk management practice and challenges

Where SA= strongly agree, A= Agree, N= Neutral, DA= Disagree and SDA=strongly disagree

NO	STATEMENT	SA	A	N	DA	SDA
1	The bank has established clear risk management policies and procedures.					
2	The bank risk management policies and procedures are documented and provide guidance to employees on risk management.					
3	Training programs for employees are promoted and implemented by banks in the area of risk management.					
4	Employees were frequently briefed on risk management options.					
Risk Identification						
5	The bank has developed and applied procedures for the systematic identification of risks.					
6	The Bank conducts risk identification in a compact and systematic way					
7	The bank apply the most sophisticated techniques for risk identification					
8	The bank has frequent communication with customers to identify its main risk					
Risk assessment and analysis						
9	The bank assesses the probability of occurrence of key risks					
10	The Bank use quantitative risk assessment methods.					
11	The Bank use qualitative risk assessment methods.					
12	The Bank strive to prioritize key risks					
Risk monitoring and evaluation						
13	Monitoring the effectiveness of risk management is an integral					

	part of regular management reporting					
14	The level of control by the bank is appropriate for the risks that it faces					
15	Your bank is able to accurately evaluate the costs and benefits of taking risks					
Risk Management Practices						
16	There is significant board and senior management involvement in the risk management in your bank.					
17	Effective risk management is one of the main objectives of the bank.					
18	The bank adopts multiple risk measurement methodologies to capture risk					
19	The bank regularly prepares periodic report to the Board of Directors and senior Managements about risk exposures of the bank.					
Risk management challenges						
20	Lack of common understanding of risk management among all staffs of the bank.					
21	The bank has Insufficient risk management processes, procedures, and tools.					
22	There is inadequate number of staff working in risk management department.					
23	There is lack of strong leadership in the risk management function.					

24. If you have additional idea related to Lion International Bank please state

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Thanks for your cooperation!!