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ANALYZING THE EFFECTIVENESS OF RISK MANAGEMENT STRATEGY: THE CASE STUDY OF BERHAN BANK S.C.

BY

MESERET EGUALE

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ADDIS ABABA, ETHIOPIA

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ADVISOR

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A THESIS SUBMITTED TO ST. MARY UNIVERSITY, SCHOOL OF GRADUATE STUDIES SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE.

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Declaration

I, the undersigned, declare that this work entitled "**Analyzing the effectiveness of risk management strategy: The case study Berhan Bank S.C.**"Is the outcome of my own effort and has not been presented for the award of any degree in any other university or college and that all sources of materials used for the study have been duly acknowledged.

I have produced it independently except for the guidance and valuable suggestion of the research advisor **Misraku Molla (PhD)**.It is offered for partial fulfillment of the degree of Masters of Arts in Business Administration in Accounting and Finance.

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ENDORSEMENT

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

Misraku Molla (Ph.D.)	______________	June 19, 2024
Name of advisor	Signature	Date

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ABSTRACT

The main purpose of the study was to analyze the effectiveness of risk management strategy of Berhan bank with specific objectives of assessing the alignment between the risk management policy and procedures of the bank and its practice, bank specific factors that influence effectiveness risk management strategy and the mechanisms that the bank uses to handle effectiveness of risk management strategy. For the purpose of the study both primary and secondary data have been used. Primary data was collected using a structured questionnaire data collection method. The information related to the study problems was obtained through questionnaires from the effectiveness of risk management analysis and Appraisal, Risk and Compliance Management and risk strategy Follow-up and Portfolio Management departments. Secondary data was collected from the bank's risk management strategy policy and procedures, the annual reports of the bank, NBE directives and other documents regarding the bank's strategic management history. Based on the nature of the study the research design is descriptive with a qualitative and quantitative research method. Data collected using questionnaires was analyzed by the help of statistical package for the social sciences (SPSS) Descriptive statistical tools were used to analyze the data collected. The software was used in order to have the descriptive quantitative results which were in the form of percentages and frequencies. Hence, the nature of the Study is descriptive. Therefore, the findings of the study showed that the bank has effective risk management policy and procedures that aligns with the regulations of the NBE and this helps it to handle effectiveness of risks management. However, there was a lack of communication of the policy and procedures to the staff that work on ERM strategy and lack of training for the qualified staff in the department. So as to this the recommendation that was given to the concerned body of the bank is to create a suitable environment for the effectiveness of risk management strategy of the bank to be implemented by equipping the staff with the proper training and also reviewing and updating the policy and procedures on a regular basis.

Keywords: Credit risk, effectiveness risk management strategy, policy and procedure

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Acronyms

CRM: Credit Risk Management

RMS; Risk Management Strategy

NBE: National Bank of Ethiopia

SC: Share Company

SPSS: Statistical Package for Social Science

CHAPTER ONE

I. INTRODUCTION

1.1 Background of the study

Bank as the projecting financial service rendering facility, it plays enormous role in the growth and development of the economy. This puts the sector in a critical juncture as its achievement or failure has constructive as well as destructive impact on the general performance of the economy of a given state.

Risk is inherent in every banking sector that is required to be succeeded by engaging more knowledgeable workforce (Ndung'u, 2020). The risk in the banking sector is more threatening and as such risk management is of grave importance to the sector. Because of the global financial crisis, the risk management practices of various financial institutions became a most important area of emphasis for participants in the financial sector. As an example, Hess, (2011) observed that one of the main causes is that the failure of financial institutions in 2008 and even now could be the lack of proper risk management strategy in particular.

Generally, risks are defined as unwanted event or cause or probability or statistical expectations value of event which can or might not occur (Huebner, M., Vach, W., & le Cessie, S. (2016).). For banks especially, they need to simply accept or decline risks depends on the probability and consequences in their daily operation. Better risk management leads to better bank performance. It has also major significance for banks to exercise prudent risk management to guard their assets and safeguard the investors' wellbeing (Wisdom et al., 2018). Thus, the issue of managing risks has become the most fundamental concern in a contemporary changing global environment. According to (Ishtiaq et al., 2020) the issue of risk management in banks got an important place after the financial crisis because Van G, H., &Brajovic B.S. (2009 states that, risk management is the lifeblood of every organization and corporate officers deal with it decisively wherever it appears.

The risks in the banking sector cannot be eliminated or avoided but they can only be managed to control the degree and direction of their impact on the bank's financial performance (Soyemi et al., 2014). For this reason, banks should implement effective risk management and this is urgently required. According to Schwartz-Gârlişte, (2013), the difficulty of risk management has grown such a lot to draw in the attention of the worldwide banking sector, and in the financial crisis period, risk management at most banking institutions has failed to enforce the basic rules for a safe business i.e., avoid strong concentrations and minimize the volatility of returns. Moreover, the common ideology of risk management in most industries is to curtail the potential for risks and scale down the effect of possible losses (Sleimi & Davut, 2015). Njogo, (2012) States that risk management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitors, and controls the probability and/or impact of unfortunate events. In this view, Risk management can exert competitive business implications. For example, ensuring the risk management strategies is not only for minimizing the chances of occurrence of the risk, but it could be a significant reason for increasing the financial performance for banks and might be useful for getting a competitive edge over other banks (Rehman et al., 2020).

A study by Agwu et al., (2015) identified five kinds of risk challenges to the Nigerian banking system as credit, liquidity, operational, foreign exchange, and interest rate risks. These risks can be grouped under systematic and unsystematic risks. The unsystematic risks are the credit, operational, and liquidity risks, which result from internal operations and management decisions of the banks, whereas the systematic risks which are foreign exchange and interest rate risks are imposed on banks by external forces like the Central Bank of Nigeria, Policy, and Foreign Exchange Market operations.

Basically, the banking system in Ethiopia has witnessed a significant expansion over the past few years. The National Bank of Ethiopia (NBE) believes such growth should be matched to strong risk management strategies. They have revised the 2003 risk management guideline in May 2010 to create the guideline in line with international standards and best practices, which is expected to produce minimum risk management (risk identification, measurement, monitoring, and control) standards for all banks operating in Ethiopia. The guideline covers the most common and interrelated risks faced by the country banks namely credit, liquidity, and operational risks. And also, it is expected from the guideline to help risk-based supervision and contribute towards the safety and soundness of the banking industry. Thus, the major concern of this study was to analyze the effectiveness of risk management strategy on the Berhan banks in Ethiopia.

Berhan Bank S.C. ("Berhan" or the "Bank") is a private commercial bank domicile in Ethiopia. The bank was registered and licensed by the National Bank of Ethiopia on 27 June 2009 in accordance with

Article 304 of the Commercial Code of Ethiopia of 1960 and licensing and Supervision of Banking Business Proclamation No. 84/1994 and officially inaugurated for public services on October 10, 2009 with the objective of operating in the banking industry. The bank was established by more than 6700 shareholders, with approved capital of birr 300 million. The subscribed capital was 154.7 Million divided into shares of 1000 Birr par value each. The bank is principally engaged in the provision of diverse range of financial products and services to a wholesale, retail and SME client's base in Ethiopian market (Annual Report, 2019/20).

Risk is intrinsic to the operations of the bank, but is handled by an ongoing process of detection, assessment and monitoring, according to risk limits and other controls (Basel, 2011). "Risk management provides a comprehensive and dynamic framework for identifying, measuring, monitoring and managing financial and non-financial risks. The bank is exposed to credit risk, 2 liquidity risk and operational risk; it is also subject to country risk and various operating risks. The bank's policy is to monitor those business risks through the bank's strategic planning process" (Annual Report, 2019/20, pp59-60).

Therefore, the principal concern of this paper will be to explore the Credit, Liquidity and Operational risk management strategy at Berhan Bank. By assessing the strategy used by the bank to handle effectiveness of risk by evaluating how it is formulated and implemented and how it influence the effectiveness of risk management strategy and to suggest possible solutions for the bank effectiveness of risk management strategy.

1.2. Statement of the problem

Risk management is very important and forms a main part of any organization's activities because its main aim is to help all other management activities to reach the organization's aims directly and efficiently since it is a continuous process that depends directly on the changes of the internal and external environment of the organization (Tchankova, 2002: 290). Banks consciously take risk as they perform their role of financial intermediation in the economy. Consequently, they assume various risks, which include credit risk, liquidity risk, and operational risk. Managing these risks is essential for their survival & prosperity (National Bank of Ethiopia, 2010:42).

Studies by Assefa (2018) and Bezu&Fayisa (2019) highlight the limited public disclosure of financial information by Ethiopian banks. This lack of transparency makes it difficult to assess the Bank's risk management practices through traditional metrics like capital adequacy ratios or non-performing loan ratios. Demirguc-Kunt&Detragiache (2005) suggest a link between strong risk management and financial stability in emerging markets. According to Tsegaye (2019), service quality emerges as a key challenge for banks, potentially impacting operational risk. Additionally, the Ethiopian banking industry faces increased regulatory complexity (McHugh, 2018), presenting a challenge for effective compliance management.

The studies revealed that the awareness and willingness of companies in managing their risks have increased in the emerging economies due to the impact of events such as the European financial crisis (Demirguc-Kunt&Detragiache, 2005). This indicates the demand for risk management strategy is increasing, especially in the past few years. Most studies on the relationship between risk management strategy and financial performance of banks mostly have been conceptual, often drawing the theoretical link between good risk management strategy and improved bank performance. Most of the reviewed literature indicated that previous researchers concentrated only on credit risks and liquidity leaving out operational risk elements.

Generally, the empirical analysis explicitly notes how most of the studies analyzed the effectiveness of risk management strategy on bank profitability and how its proper management has an impact on the bank’s performance. Besides, most of the studies reviewed show that no research has been made on the effectiveness of risk management strategy in the case of Berhan Bank. Therefore, this study is expected to fill the gap by assessing the effectiveness of risk management strategy of Berhan Bank with the objective of examining the alignment of the effectiveness of risk management strategy of the bank with the policies and procedures and identifying the bank specific factors. That influences the effectiveness of risk management strategy and as well assessing the mechanisms used by the bank to handle risk management strategy. The aim of this study was, therefore, to fill these relevant gaps in the literature by studying the analyzing of the effectiveness of risk management strategy on financial performance by incorporating different components of risk such as credit risk, liquidity risk, and operational risk.

This study investigates deeper into the effectiveness of existing processes for identifying and mitigating various risks, including credit, liquidity, and operational. By examining the effectiveness of Berhan Bank's risk management structure. It explores the alignment between the bank's risk management strategy, its overall business objectives, and its risk appetite. Additionally, the study will evaluate the effectiveness of Berhan Bank's processes for identifying and assessing various risks. It will examine the adequacy of the bank's risk mitigation strategies, such as diversification and capital allocation, to address identified risks.

Finally the study also clearly sorts out the bank effectiveness of risk management strategy and mechanism. Thus, the study would be additional insight and a reference for future researches on related topic.

1.3. Basic research question

More specifically, the following research questions are addressed:

- ✓ How does the credit risk management framework of the bank work in relation to the credit risks faced by the bank?
- ✓ How effective are Berhan Bank's strategies for identifying liquidity and operational risks, etc.)?
- ✓ What are the bank specific factors that influence effectiveness of risk management strategy at Berhan Bank?

1.4. Objectives of the study

1.4.1. General objective

The General Objective of the study is to analyze the effectiveness of risk management strategies in the private banking industry.

1.4.2. Specific objective

- ➢ To assess the Alignment of Berhan Bank's credit risk management strategy with its objectives.
- ➢ To examine the effectiveness of Berhan Bank's risk strategies to identify liquidity and operational risk.
- ➢ To evaluate the factors that influences the effectiveness of Berhan Bank's risk management strategies.

1.5. Significance of the study

The study analyzes Berhan Bank's risk management approach, identifying flaws and suggesting improvements to enhance risk identification, assessment, mitigation, and monitoring. This can promote financial growth and stability, giving the private banking industry a competitive edge. The study also provides insights for decision-making, enabling proactive steps to avoid problems and capitalize on favorable circumstances. Ethiopian private banks can use this study as a benchmark for evaluating risk management procedures and informing regulations and policies. The research also contributes to academic research, cross-cultural learning, and informed decision-making.

1.6. Scope of the study

The study focuses on Berhan Bank, a private bank in Ethiopia, and its risk management framework. It aims to identify, assess, mitigate, and monitor risks, align with business objectives, identify areas for improvement, and provide recommendations for enhancing the system's effectiveness. Data collection includes interviews with Berhan Bank personnel and existing research on risk management in private banking. The study's outcome will provide insights into Berhan Bank's risk management strategies and practical improvements and contribute to understanding risk management in the Ethiopian private banking context.

1.7. Limitation of the study

During this study, the researcher encountered different limitations; since the research topic involves a sensitive issue (credit, liquidity and operational risk etc.) there will be limitation in getting information that is confidential to the bank. Additionally, time and budget will also be major constraints. So as to this, all the existing problems regarding risk management in banks cannot be covered. The second limitation Confidentiality and non-response and Inaccessibility of some information from the observation of the researcher, she found out that most of respondents especially bankers are insecure and foggy by the fear of the security of their work and regulation of banks and organizations. Therefore some important information was not surfaced in this final report. Finally because of the existing limitations, the research will be limited to only cover in the above mentioned risks and only one private bank in Ethiopia that is Berhan Bank S.C.

1.8. Organization of the Study

The study mainly consists of five chapters. Chapter one: introduction of the study, background of the study, statement of the problem, research questions, and research objectives; significance of the study; scope of the study; and limitations of the study. Chapter two: is concerned with a review of the related conceptual and empirical literature relevant to this study. Chapter three: research methodology; Chapter four: encompasses data presentation and analysis; and Chapter five: discusses the findings of the study and the conclusions and recommendations reached at the end of the study.

Chapter Two

REVIEW OF RELATED LITERATURE

2.1. Theoretical Review

Risk is the fundamental element that drives financial behavior. Without risk, the financial system would be vastly simplified. However, risk is being everywhere (simultaneously) 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.

Effective risk management frameworks incorporate continuous monitoring, learning from past events, and adapting strategies to address emerging threats Thompson, S. K. (2016). The uncertainties remain a major challenge in country. Still, the major approaches applied by the banks are the continuing efforts on research and close monitoring. Banks believe that the research and monitoring are the key sources of uncertainties like data generating institutions and the treasury (Uchendu, 2009:95). The market structure is important in banking for it influences the competitiveness of the banking system and companies to access to funding or credit investment. The economic growth affects the structure and development of the banking system. In addition, the vast knowledge in risk assessment and managerial approach is recognized as part of the development. Moreover, because the banks and the processes are highly regulated, it became very useful in assessing the effects or impact of the credit risk management in the banks and even in other financial sources (Gonzalez, 2009:8).

2.1.1. Conceptual definition of risk

The English word 'risk' originates from the French word risqué. The English word 'risk' is actually quite modern, having entered the language around 1650. It was first used in a formal legal sense in insurance documents that date to around 1730. People who lived before these dates were of course just as familiar with the idea of risk and reward as their descendants. Today the world is full of risks. The number of risks that exist increases as a function of both human and organizational evolution and development. Risk can be defined as the possibility of events that will negatively impact an outcome. It emphasizes the element of uncertainty and the potential for losses or undesirable results. Lawrence, A. (1976).

The definition given for risk by many authors is more or less the same, in which many authors add their wordings to the same thing. Some of them define risk as risk is the probability and magnitude of a loss, disaster, or other undesirable events, (Hubbard, 2009). The risk is an uncertain potential event and condition that raises the chance of losses/gains which could influence the success of financial institutions, (Khalid & Amjad, 2012). Likewise, the risk is the uncertainty surrounding future events and outcomes or it is the expression of the likelihood and impact of an event with the potential to influence the organization's objective achievement (Berg, 2010). On the other hand, Rejda & McNamara, (2017) defined; risk as uncertainty concerning the occurrence of a loss. According to this definition, a risk exists only if an uncertain action or event happens that leads to the occurrence of that risk.

2.1.2. The Concept of Risk management

Management in the simplest understood definition can be defined as the act of planning, directing, controlling, monitoring and testing for desired results to be obtained. Or it is simply the act, manner, or practice of managing; handling, supervision, or control (Stephen P. 2012). Risk on the other hand can be defined as the possibility that something unpleasant or dangerous might happen (Macmillan Dictionary, 2002). When companies spoil in business, it is obvious that they will be exposed to one type of risk or another which in most cases is an uncertainty although at times it can be certain that it will occur. Banks are one of such businesses whose risk is very sure because they don't function in isolation given the dynamic environment in which they operate, the volatility of the Financial Markets in which they participate, diversification and the competitive environment in which they find themselves, (Williams et al., 2006:69). Even though it is certain that risk will occur, it is not always possible in most cases to eliminate, reduce or ameliorate it (Keith, 1992: 16). So, the best possibility for companies is to try to manage the risk so as to reduce the possibility of occurrence or to reduce the consequences.

These possibilities can range from "do nothing at all" to attempting to nullify the effect of every identified risk (William et al., 2006: 67). But, because of the nature of the banking activity, a bank can't find itself in a position to do nothing at all or to nullify the risk. So, all it does is to live with it but look for means to manage it. Given the riskiness of its activities, a bank does not wait to introduce risk management at a certain stage of its activities but does so right from the start. This is so because its activities are so correlated in such a way that if not well handled, the effect / consequences can be connected and can even lead to bankruptcy. For this goal to be attained, decision makers need to first of all identify the risk involved, measure its intensity, assess it, monitor it and then look for measures on how to control it. This act of managing the risk is called Risk management (RM).

RM is “a course of action planned to reduce the risk of an event occurring and/or to minimize or contain the consequential effects should that event occur” (Keith, 1992:14). This course of action linked, gives rise to a Risk Management process which involved a number of stages. Risk management is very important and forms a main part of any organization’s activities because its main aim is to help all other management activities to reach the organization’s aims directly and efficiently since it is a continuous process that depends directly on

2.1.2.1. The risk management process in banking

Identification defining the nature of risks, including where they originate from and why they pose a threat to the bank. ***Assessment and Analysis*** evaluating how likely a risk will pose a threat to the bank, and how grave that threat will likely be. This helps a bank prioritize which risks deserve the most attention. ***Mitigation*** designing and implementing bank policies and processes that limit the chance that risks will become threats, and that minimize the damage threats may cause. ***Monitoring*** gathering data on threat prevention and incident response to determine how well a bank risk management strategy is working. This also involves researching emerging risk trends to determine if a bank’s risk management framework needs (or will need) updating. ***Cooperation*** establishing relationships between risks and mitigation strategies across different areas of the bank’s operations to create a more centralized and coordinated threat response system. ***Reporting*** documenting and reviewing information related to the bank’s risk management efforts to gauge their effectiveness. This is also used to track how the bank’s overall risk profile changes over time. These components need to be carried out together—and repeated regularly—in order to give banks as much protection against risk as possible.

2.1.3. Risk management strategy

Risk management is a cornerstone of any successful financial institution, and numerous studies have explored effective strategies within the banking sector. Abate & Ali (2018) highlight the importance of a comprehensive risk management framework for Ethiopian private banks, encompassing credit risk, liquidity risk, operational risk, and market risk. This framework allows banks to identify, assess, and develop strategies to mitigate these potential pitfalls. Frameworks like ISO 31000:2009 (ISO

31000:2009) offer a structured approach to risk management, guiding banks through the process (International Organization for Standardization, 2009).

Furthermore, studies delve into specific risk mitigation strategies. Crofford (1982) emphasizes the importance of robust loan assessment practices to address credit risk, the risk of borrowers defaulting on loans. Goggans& Madura (2017) highlight strategies for managing liquidity risk, such as maintaining adequate cash reserves and diversifying funding sources. Operational risk, a growing concern, necessitates strong internal controls and investments in cybersecurity measures (Cavalluzzo&Vanthienen, 2019).

Effective risk management goes beyond individual strategies. Integrating technology plays a crucial role. Big data analytics can aid Berhan Bank in identifying potential risks, while automation can improve process efficiency, minimizing operational risk (Chen et al., 2020). By implementing a comprehensive risk management framework, employing effective mitigation strategies, and leveraging technology, Berhan Bank can ensure its long-term financial stability and contribute to a more secure financial system for Ethiopia.

2.1.4. Major types of risks faced by banks

Banking is the intermediation between financial savers on one hand and the funds seeking business entrepreneurs on the other hand. As such, in the process of providing financial services, banks assume various kinds of risk both financial and non-financial. Moreover this risk inherent in the provision of their services differs from one product or service to the other. These risks have been grouped by various writers in different ways to develop the frameworks for their analyses but the common ones which are considered in this study are credit risk, liquidity risk, and operational risk.

2.1.4.1. Credit Risk

The analysis of the financial soundness of borrowers has been at the core of banking activity since its inception. This analysis refers to what nowadays is known as credit risk, that is, the risk that counterparty fails to perform an obligation owed to its creditor. Another definition considers credit risk as the cost of replacing cash flow when the counterpart defaults. In an article by Elmer Kunke Kupper on Risk Management and Banking he defines credit risk as the potential financial loss resulting from the failure of customers to honor fully the terms of a loan or contract. This definition can be expanded to include the risk of loss in portfolio value as a result of migration from a higher risk grade to a lower one

.Greuning and Bratanovic (2009) define credit risk as the chance that a debtor or issuer of a financial instrument whether an individual, a company, or a country will not repay principal and other investment-related cash flows according to the terms specified in a credit agreement. 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 objective of credit risk management is to maximize a bank‘s risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. More than 70 percent of a bank‘s balance sheet generally relates to credit risk and hence considered as the principal cause of potential losses and bank failures. Time and again, lack of credit risk has been the primary culprit for bank failures. The dilemma is that banks have a comparative advantage in making loans to entities with whom they have an ongoing relationship, thereby creating excessive concentrations in geographic and industrial sectors. Credit risk includes both the risk that a 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. While default triggers a total or partial loss of any amount lent to the obligor or counterparty, a deterioration of the credit standing leads to the increase of the possibility of default. In the market universe, a deterioration of credit standing of a borrower does materialize into a loss because it triggers an upward move of the required market yield to compensate the higher risk and triggers a value decline (Bessis, 2010). Normally the financial condition of the borrower as well as the current value of any underlying collateral are of considerable interest to banks when evaluating the credit risks of obligors or counterparties (Santomero, 1997).

According to Greuning and Bratanovic (2009), formal policies laid down by the board of directors of a bank and implemented by management plays a vital part in credit risk management. As a matter of fact, a bank uses a credit or lending policy to outline the scope and allocation of a bank‘s credit facilities and the manner in which a credit portfolio is managed that is, how investment and financing assets are originated, appraised, supervised, and collected. There are also minimum standards set by regulators for managing credit risk. These cover the identification of existing and potential risks, the definition of policies that express the bank‘s risk management philosophy, and the setting of parameters within which credit risk will be controlled. There are typically three kinds of policies related to credit risk management. The first aims to limit or reduce credit risk, which include policies on concentration and large exposures, diversification, lending to connected parties, and overexposure. The second set aims at classifying assets by mandating periodic evaluation of the collectability of the portfolio of credit instruments. The third set of policies aims to make provision for loss or make allowances at a level adequate to absorb anticipated loss.

2.1.4.2. Liquidity Risk

According to Greuning and Bratanovic (2009), a bank faces liquidity risk when it does not have the ability to efficiently accommodate the redemption of deposits and other liabilities and to cover funding increases in the loan and investment portfolio. These authors go further to propose that a bank has adequate liquidity potential when it can obtain needed funds (by increasing liabilities, securitizing, or selling assets) promptly and at a reasonable cost. The Basel Committee on Bank Supervision, in its June 2008 consultative paper, defined liquidity as the ability of a bank to fund increases in assets and meet obligations as they become due, without incurring unacceptable losses. Bessis (2010) however considers liquidity risk from three distinct situations.

The first angle is where the bank has difficulties in raising funds at a reasonable cost due to relating to transaction volumes, level of interest rates and their fluctuations and the difficulties in funding counterparty. The second angle looks at liquidity as a safety cushion which helps to gain time under difficult situations. In this case, liquidity risk is defined as a situation where short-term asset values are not sufficient to match short term liabilities or unexpected outflows. The final angle from where liquidity risk is considered as the extreme situation. Such a situation canarise from instances of large losses which creates liquidity issues and doubts on the future of the bank. Such doubts can result in massive withdrawal of funds or closing of credit lines by other institutions which try to protect themselves against a possible default. Both can generate a brutal liquidity crisis which possibly ends in bankruptcy. There are many factors that affect banks own liquidity and in turn affect the amount of liquidity they can create. These factors have a varying degree of influence on the balance between liquidity risk and liquidity creation, or a bank's liquidity management. A bank's assets and liabilities play a central role in their balancing of liquidity risk and creation. A bank's liabilities include all the banks sources of funds. Banks have three main sources of funds: deposit accounts, borrowed funds, and long term funds. The amounts and sources of funds clearly affect how much liquidity risk a bank has and how much liquidity it can create. The easier a bank can access funds the less risk it has and the higher amount of funds it holds the more liquidity it can create. Liquidity is necessary for banks to compensate for expected and unexpected balance sheet fluctuations and to provide funds for growth

(Greuning and Bratanovic, 2009). Santomero (1995) however, posits that while some would include the need to plan for growth and unexpected expansion of credit, the risk here should be seen more correctly as the potential for funding crisis. Such a situation would inevitably be associated with an unexpected event, such as a large charge off, loss of confidence, or a crisis of national proportion such as a currency crisis. Effective liquidity risk management therefore helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behavior.

The Basel Committee on Bank Supervision consultative paper (June 2008) asserts that the fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk, both of an institution-specific nature ssand that which affects markets as a whole. A liquidity shortfall at a single bank can have system-wide repercussions and hence liquidity risk management is of paramount importance to both the regulators and the industry players.

The price of liquidity is conversely a function of market conditions and the market‘s perception of the inherent riskness of the borrowing institution (Greuning and Bratanovic, 2009). So if theis a national crisis such as acute currency shortage or decline, or perception of the bank‘s credit standings deteriorates, or fundraising by the bank becomes suddenly important and recurrent or has unexpected fluctuation, funding becomes more costly. Financial market developments in the past decade have increased the complexity of liquidity risk and its management.

2.1.4.3. Operational Risk

The Basel Accord (2007) defines operational risk as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Malfunctions of the information systems, reporting systems, internal monitoring rules and procedures designed to take timely corrective actions, or the compliance with the internal risk policy rules result in operational risks (Bessis, 2010). Operational risks, therefore, appear at different levels, such as human errors, processes, and technical and information technology. Because operational risk is an event risk, in the absence of an efficient tracking and reporting of risks, some important risks will be ignored, there will be no trigger for corrective action and this can result in disastrous consequences. Developments in modern banking environment, such as increased reliance on sophisticated technology, expanding retail operations, growing e-commerce, outsourcing of functions and activities, and greater use of structured finance (derivative) techniques that claim to reduce credit and market risk have contributed to higher levels of operational risk in banks (Greuning and Bratanovic, 2009).

The recognition of the above-mentioned contributory factor in operational risk has led to an increased attention on the development of sound operational risk management systems by banks the initiative being taken by the Basel Committee on Banking Supervision. The Committee addressed operational risk in its Core Principles for Effective Banking Supervision (1997) by requiring supervisors to ensure that banks have risk management policies and processes to identify, assess, monitor, and control or mitigate operational risk. In its 2003 document, Sound Practices for the Management and Supervision of Operational Risk, the Committee further provided guidance to banks for managing operational risk, in anticipation of the implementation of the Basel II Accord, which requires a capital allocation for operational risks. Despite all these efforts by the regulators at addressing operational risk, practical challenges exist when it comes to its management. In the first place, it is difficult to establish universally applicable causes or risk factors which can be used to develop standard tools and systems of its management since the events are largely internal to individual banks.

Moreover, the magnitude of potential losses from specific risk factors is often not easy to project. Lastly, it is difficult designing an effective mechanism for systematic reporting of trends in a bank‘s operational risks because very large operational losses are rare or isolated. Because of the data and methodological challenges raised by operational risk, the first stage of developing an effective framework to manage it is to set up a common classification of loss events that should serve as a receptacle for data gathering process on event frequency and costs. The data gathered is then analyzed (risk mapping) with various statistical techniques such as graphical representation of the probability and severity of risks. This helps to find the links between various operational risks. The process then ends with some estimates of worst-case losses due to events risks. Modelling of loss distributions due to operational risks will enable the right capital charges to be made for operational risk as required by current regulations (Bessis, 2010). In order for the objectives of setting up an operational risk management framework to be accomplished, it may require a change in the behavior and culture of the firm. Management must also not only ensure compliance with the operational risk policies established by the board, but also report regularly to senior executives. A certain amount of self-assessment of the controls in place to manage and mitigate operational risk will be helpful.

2.1.5. Effectiveness of risk management strategies

Evaluating the effectiveness of a risk management strategy is crucial for ensuring the ongoing financial health of a bank. Several key factors contribute to a successful strategy:

Comprehensiveness: A truly effective risk management framework must be comprehensive in its scope. Studies by Abate & Ali (2018) highlight the importance of addressing all relevant risks, including credit, liquidity, operational, market, and even emerging threats like cyber security. A well-defined approach ensures no critical risks are overlooked, leaving the bank vulnerable.

Risk Assessment Accuracy: Accurately assessing the likelihood and potential impact of identified risks is essential for prioritizing mitigation efforts. Quantitative and qualitative methods, as explored by Chen et al. (2016), contribute to a nuanced understanding of risk severity. Inaccurate assessments can lead to either overspending on unnecessary mitigation or leaving significant risks unaddressed.

Alignment with Regulations: Effective risk management goes beyond internal practices. Regulatory compliance is crucial. Studies by Demirguc-Kunt& Detragiache (2005) emphasize the link between robust risk management practices and financial stability in emerging markets. Berhan Bank's framework should align with the National Bank of Ethiopia's (NBE) regulations to ensure adherence to best practices and contribute to a stable financial system.

Monitoring and Adaptability: Risk management is an ongoing process, not a one-time event. As Cavalluzzo &Vanthienen (2019) point out, continuous monitoring and adaptation are essential. Regular reviews, performance metric tracking, and adjusting strategies based on changing market conditions or internal developments are crucial for maintaining effectiveness. A static approach risks overlooking the dynamic nature of financial markets and potential threats.

Integration and Communication: A skilled risk management approach is unlikely to be successful. Effective integration with overall bank strategies and clear communication across all levels are essential. This ensures that risk mitigation strategies are aligned with operational goals and all employees are aware of potential risks and their responsibilities in managing them.

By focusing on these key elements - comprehensiveness, accurate risk assessment, regulatory compliance, continuous monitoring, and strong integration/communication - Berhan Bank can ensure its risk management strategy effectively safeguards its financial stability and fosters long-term success within Ethiopia's evolving financial landscape.

2.2. Empirical Literature Review

2.2.1. Empirical Insights into Risk Management Effectiveness in Private Banking

Effective risk management practices are the cornerstone of success in the ever-changing landscape of private banking. Fortunately, empirical research sheds light on the strategies that truly make a difference.

2.2.2. Assessing Risk Management in Ethiopia's Private Banks

Evaluating risk management practices in Ethiopia's private banks is challenging due to limited public data. Traditional methods relying on bank ratios are difficult to implement (Assefa, 2018; Bezu & Fayisa, 2019). This lack of transparency hinders a comprehensive assessment of the industry's risk management strategies.

Regulatory Framework Analysis: Research suggests a link between strong risk management and financial stability in developing economies (Demirguc-Kunt & Detragiache, 2005). While individual bank compliance details are not available, the continued operation of banks like Berhan Bank suggests a baseline adherence to National Bank of Ethiopia (NBE) regulations. Further research could assess the effectiveness of these regulations in driving strong industry-wide risk management.

Comparative Analysis: Data limitations can be addressed by comparing Ethiopian banks to regional leaders in risk management. If Ethiopian banks perform similarly or better than these established institutions, it could indicate an effective industry-wide approach to risk management (considering factors like bank size, market focus, and economic conditions).

2.2.3. Analyzing the effectiveness of Berhan Bank risk management

Due to the limited publicly available financial data on Berhan Bank, conducting a comprehensive empirical analysis of their specific risk management strategy is challenging. However, we can explore relevant research on Ethiopian banks and broader industry trends to glean potential insights into Berhan Bank's approach and areas for further investigation.

Limited Public Data: Studies by Assefa (2018) and Bezu&Fayisa (2019) highlight the limited public disclosure of financial information by Ethiopian banks. This lack of transparency makes it difficult to assess Berhan Bank's risk management practices through traditional metrics like capital adequacy ratios or non-performing loan ratios.

Regulatory Framework: Demirguc-Kunt &Detragiache (2005) suggest a link between strong risk management and financial stability in emerging markets. While specific details of Berhan Bank's adherence to NBE regulations are not publicly available, their continued operation suggests a baseline level of compliance. Further research could explore how effectively the NBE's regulations are driving robust risk management practices across Ethiopian banks, including Berhan Bank.

Industry Benchmarks: Comparative analyses with other Ethiopian banks or regional leaders might offer some insights. If Berhan Bank demonstrates similar or superior financial performance compared to well-regarded institutions, it could indicate a potentially effective risk management strategy. However, such comparisons require careful consideration of factors like bank size, market focus, and overall economic conditions.

2.2.4. Berhan Bank Case Study: Analyzing Their Risk Management Strategy

Founded in 2019, Berhan Bank (BB) is a private bank operating in Ethiopia, offering various financial products and services to individuals and businesses. BB aims to become "a radiant and trustworthy bank in excellence" (Berhan Bank, 2023). Their risk management framework reportedly draws inspiration from the COSO ERM framework, emphasizing risk identification, assessment, mitigation, and monitoring (Asfaw, 2020). Adherence to Best Practices: BB's adoption of the COSO ERM framework aligns with industry best practices. However, limited public information hinders a comprehensive assessment of its adherence to other best practices like stress testing and scenario planning.

Effectiveness of Risk Processes: While BB reports implementing risk identification and assessment processes, studies indicate potential challenges in effectiveness. One study by Desta (2022) suggests concerns regarding auditor independence and competence, potentially impacting risk assessment accuracy. The lack of publicly available information on risk mitigation and monitoring practices makes further evaluation difficult.

Key Risk Challenges: According to Tsegaye (2019), service quality emerges as a key challenge for BrB, potentially impacting operational risk. Additionally, the Ethiopian banking industry faces increased regulatory complexity (McHugh, 2018), presenting a challenge for effective compliance management.

2.2.5. Summery and Knowledge gap

This section summarized the existing literature on effectiveness of risk management strategy on bank financial performance. Financial performance is influenced by a combination of factors facing the firm;

a review of the literature provides evidence as to why firms should concern themselves with risk management strategy. The studies revealed that the awareness and willingness of companies in managing their risks have increased in the emerging economies due to the impact of events such as the European financial crisis. That is, the demand for risk management strategy is increasing, especially in the past few years. Most studies on the relationship between risk management strategy and financial performance of banks mostly have been conceptual, often drawing the theoretical link between good risk management strategy and improved bank performance. It is evident from the above review of the relevant literature that research in the area of bank risk has been carried out. Most of the reviewed literature indicated that previous researchers concentrated only on credit risks and liquidity leaving out operational risk elements.

Generally, the empirical analysis explicitly notes how most of the studies analyzed the effectiveness of risk mangement strategy on bank profitability and how its proper management has an impact on the bank's performance. Besides, most of the studies reviewed show that no research has been made on the effectiveness of risk management strategy in the case of Berhan Bank. Therefore, this study is expected to fill the gap by assessing the effectiveness of risk management strategy of Berhan Bank with the objective of examining the alignment of the effectiveness of risk management strategy of the bank with the policies and procedures and identifying the bank specific factors. That influence the effectiveness of risk management strategy and as well assessing the mechanisms used by the bank to handle risk management strategy. The aim of this study was, therefore, to fill these relevant gaps in the literature by studying the analyzing of the effectiveness of risk management strategy on financial performance by incorporating different components of risk such as credit risk, liquidity risk, and operational risk.

CHATER THREE

3.1. Research Approach

The research was conducted on Berhan Bank S.C. as a case study, which was basically designed to analyze the effectiveness of risk management strategy at the Bank. Therefore, the data that was used to analyze this study was obtained from both primary and secondary data sources. While the primary data was collected using questionnaire method and the secondary data was collected from the bank's annual reports, bank directives, policy and procedures and the like. Qualitative and Quantitative approaches have been used to analyze the collected data. The qualitative approach helped in order to analyze documents that are gathered from the secondary sources, while the quantitative approach was used to analyze the primary data that was collected using the questionnaire.

3.2. Research Method

As the study intended to describe the existing practices, descriptive analytical methods were used for the study. This method is chosen to investigate the effectiveness of management strategy at Berhan Bank S.C. Accordingly, the current risk management strategy and procedure and its implementation along with the challenge that hinder the effectiveness of risk management strategy, the mechanisms used to handle effectiveness of risk management strategy and bank specific factors that influence risk management strategy was assessed.

Questionnaire was distributed to the bank's employees that work at the head office level in the risk management strategy related departments such as risk management strategy Analysis and Appraisal, Risk and Compliance Management and strategy follow-up and Portfolio Management departments.

3.3. Types of Data and Tools of Data Collection

The type of data used for the study includes qualitative and quantitative data (mixed). Primary and secondary sources of data were used for the study. The main primary source of data is through the use of questionnaires. The questionnaire was open and close-ended. The open-ended question offered the respondents the opportunity to freely express themselves on the issues under consideration while the close-ended questions restricted the respondents on the options provided. In the case of the secondary source of data, annual and quarterly reports of the bank were analyzed. These reports contain financial performance of the bank. Besides, as reference material NBE directives, journals working paper as well as different thesis were used in the study. Structured questionnaires were used for the collection of data. As earlier these questions were both open and close-ended questionnaire.

3.4. Population of the study

The population of the research is the members of Berhan Bank strategy management and risk related departments. Since the experience of the officers in the departments is taken into consideration staffs that have direct involvement with risk management strategy will be the main focus. On the other hand, staffs that have a less involvement but work through the process of strategy mangement were taken as additional source of information as well.

And in order to strengthen the topic's argument and get the picture from the side of the branches, the managers and accountants and/or senior strategy officers of selected branches were also considered. Since all the risk management strategy practice is maintained and implemented at the department level, data gathered from the branch level helped as additional information.

Branches were selected according to purposive sampling. Accordingly, five branches found in Addis Ababa that are ranked from 1 up to 5, by their highest disbursement ratio were selected. The questionnaires were distributed to the branch manager and accountants and/or senior loan officers who worked at the branch levels.

3.5. Populations and Sampling Techniques

According to the annual report of 2020/21 the bank total staff is 5,283, only 50 of the employees work in the risk, compliance and credit management related departments and are directly involved in the process of risk management. In addition to the above departments, the study included five branches found in Addis Ababa according to the annual report of 2020/21 they are ranked from 1 up to 5, by the highest disbursement ratio due to the time, cost, large number of staffs and least relevancy consideration. And also, because all the risk management strategy is maintained and implemented at the department level, data gathered from the branch level will help as additional information.

Therefore, since the involvement of the employees at these departments in regards to the research topic is considered to have key role in the subject matter the sample size of 50 respondents meaning 35 from the departments and 15 from the selected five branches.

3.6. Method of data analysis

Data collected using questionnaire was analyzed by the help of statistical package for the social sciences (SPSS). It is an analytical tool used to perform quantitative analysis and is used as a complete statistical package that is based on a point and click interface. The software was used in order to have the descriptive quantitative results which will be in the form of percentages and frequencies.

The close ended questions were processed and analyzed by SPSS version 20 and Frequencies, and Percentages were computed. The open-ended questions were analyzed according to the respondent's suggestions on the topic raised. So, the researcher used descriptive type of data analysis both quantitative and qualitative, to draw conclusion and inferences.

3.7. Reliability and Validity of the data gathering instruments

To check the questionnaires internal consistency reliability the Cronbach's alpha coefficient test was conducted.

Table 1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.914	.916	43

3.8. Ethical Consideration

Before the research is conducted, the researcher informs the participants of the study about the objectives of the study and will consciously consider ethical issues in seeking consent, avoiding deception, maintaining confidentiality, respecting privacy, and protecting the anonymity of all respondents. The researcher will consider these points because the law of ethics on research condemns conducting research without the consensus of the respondents for the above-listed reasons.

CHAPTER FOUR

4. DATA ANALYSIS, RESULTS AND DISCUSSION

4.1. Introduction

This chapter contains the presentation, analysis and interpretation of the data collected through questionnaire. The study has been carried out with the target of analyzing the effectiveness of risk management strategy at Berhan Bank using the questionnaires prepared to answer the effectiveness of risk management framework of the bank in relation to the effectiveness of risks faced, the bank specific factors that influence effectiveness risk management and the mechanisms used by the bank to handle risk management strategy.

The personal profile of the respondents was covered in the first part explained in tabular form and with brief discussion. The second part discusses the results of the questionnaires according to three categories based on the basic research questions of the paper. Questionnaire with Likert scale ratings of five points ranging from Strongly Disagree to Strongly Agree has been distributed with open ended questions that gave the respondents chance to elaborate their answers in their own terms.

The results with respective interpretations have been discussed.

4.2. Response Rate

Since the study was conducted mainly at the head office where all the three department's staff are found, and the distribution and collection of the questionnaires was managed by self and with the assistance and cooperation of staffs, all the distributed questionnaires were retrieved. This has helped to get sufficient and reliable data.

Table 2: Gender

		Frequency	Percent	Valid percent	Cumulative Percent
Valid	Male	27	54	54	54
	Female	23	46	46	100
	Total	50	100	100	

Source: Own survey result from primary data sources, 2024

According to the survey, more than half of the effectiveness of risk management strategy related staffs are male dominated at 54 percent while female staffs are 46 percent as it is shown in the table above.

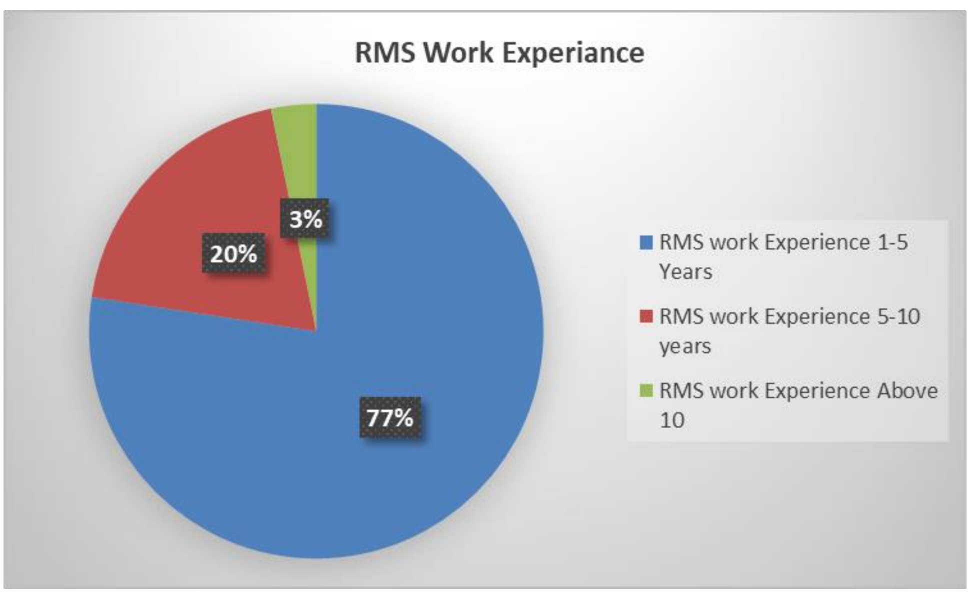
Table 3: Age

		Frequency	Percent	Valid percent	Cumulative percent
Valid	20-30	22	44	44	44
	31-40	21	42	42	42
	41-50	7	14	14	100
	Total	50	100	100	

Source: Own survey result from primary data sources, 2024

The respondent's major age group covering 44 percent is the young age group ranging between 20-30 years of age. While the 42 percent of the respondent's falls between the earlier middle age groups ranging from 31-40 years of age. And the last 7 percent of the respondent lies between the 41-50 years of age. From this it can be observed that the bank staffs working in the risk and related departments are mostly at the age of young and energetic stage which can be an asset to the bank in terms of human resource utilization.

Chart 4.2



The respondent's risk management strategy experience within the bank is as shown in the above chart.

Respondents who have 1-5yrs of working experience on credit are 77.4 percent of the overall respondents while 19.4 percent of the respondents have worked 5-10yrs on credit and the rest 3.2 percent has above 10yrs of credit experience within the bank. From this, it can be driven that there is lack of personnel with longer credit experience levels that work in the credit and related departments at the bank. Therefore, hiring more experienced staff or equipping the existing staff who has lower experience with the proper and adequate skill and knowledge is highly recommended to the bank, in order to facilitate the CRM practice of the bank'.

4.3. Research related questions

According to the objectives of the study, the questionnaire has been divided into three parts. The first part is concerned with the credit risk management framework of the bank in relation to the credit risks faced at the bank. Questions raised have been mainly about the policies and procedures of the bank and framework the bank uses to handle credit risk. The second part is concerned with bank specific factors that influence operational risk management practice at the bank. The questions that have been raised consisted of which factors influenced the practice of credit risk management in the bank. The third part is concerned with the mechanisms used by the bank to handle liquidity risk. This part was divided into four sub-parts that mentioned the topics such as risk identification, assessment and analysis, monitoring and evaluation practice of the bank in order to identify the mechanisms the bank uses to handle its credit risks. The following will be the analysis made from the survey and their respective interpretation of the findings.

4.3.1. Credit risk management framework of the bank in relation to the credit risks faced at the bank

Table 4: The use of credit risk management tools

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	12	12	12
	Disagree	6	12	12	9.5
	Neutral	8	16	16	19,5
	Agree	22	44	44	59.0
	Strongly Agree	8	16	16	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

Among the respondents, 22% of them stated that they agree on how the bank uses the credit risk management tools to handle credit risk effectively. 8 percent the respondents strongly agreed and another 8% responded neutral while 6 % each Strongly Disagreed and Disagreed that the bank uses credit risk management tools to handle credit risk effectively as shown in table 4.

Table 5 below shows that 34% of the respondents agree with the statement 'the bank has a liquidity risk management framework that helps reduce the liquidity risks faced by the bank', while those who stated they strongly agree and those who chose neutral are 12.9% each among the respondents. This implies that, according to the stated figures, Berhan bank does use liquidity risk management tools to handle liquidity risk and that the RMS framework of the bank helps reduce the liquidity risks the bank face.

Table 5: The bank's risk management framework

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	6.5	6.5	6.5
	Neutral	6	12.9	12.9	19.4
	Agree	34	67.7	67.7	87.1
	Strongly Agree	6	12.9	12.9	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

Table 6: The bank's policies and procedure and credit exposure limits

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	12.5	25.8	25.8	25.8
	Agree	25	48.4	48.4	74.2
	Strongly Agree	12.5	25.8	25.8	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

Regarding the policies and procedures in terms of risk exposure limits and its timely and appropriate updating, 48.4% of the respondents agreed. While the respondents who strongly agreed and who were neutral are 25.8% each, 0% disagreed. Therefore, the bank has policies and procedure in regards to risk exposure limits and it is timely and appropriately updated.

The respondents answer for whether the risk management policies and procedures of the bank enhances effectiveness of monitoring and controlling the risk were 58.1% agreed and 22.6% strongly agreed. While 16.1% of the respondents were neutral, the rest 3.2% of them disagreed. This implies that the CRM policy and procedure of the bank enhances effectiveness of monitoring and controlling of the credit risk and to that effect more than half of the respondents agreed as shown in table 7 below.

Table 7: The CRM policies and procedures of the bank and effectiveness of monitoring and controlling the credit risk

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	3.2	3.2	3.2
	Neutral	9	16.1	16.1	19.4
	Agree	27	58.1	58.1	77.4
	Strongly Agree	11	22.6	22.6	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

According to the bank's annual report, the risk management policies and systems are reviewed regularly in order to reflect changes in market conditions and the bank's activities. The bank through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations (Annual report, 2019/20).

On the following table 8, the respondents have answered to the statement, credit manuals are up- to-date and convenient for loan creation as 51.6% of which agreed and 22.6% strongly agreed, leaving 12.9% each to the neutral and disagree responses. Higher number of the respondents agreed that the bank's manuals are up-to-date and convenient for loan creation.

Table 8: The Risk manuals are up-to-date and convenient for strategy creation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7.5	12.9	12.9	12.9
	Neutral	7.5	12.9	12.9	25.8
	Agree	23	51.6	51.6	77.4

	Strongly Agree	7	22.6	22.6	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

As the National bank of Ethiopia's guidelines on risk management states that it is the responsibility of the board of directors in the bank to review and approve the bank's risk strategy and policies. It is also necessary for all the banks to develop a strategy that aligns with its objectives in risk activities and adopting the necessary policy and procedures to conduct such activities.

In order to study the policy and procedures of Berhan bank, in terms of the general objectives of the bank and the framework it has in relation to the risk management, the following responses were given by the respondents for the next six questions regarding it.

Table 9: Risk policy and procedures of the bank

The Bank's strategy policy and procedure is flexible and takes into account the changes in the market		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	6.5	6.5	6.5
	Neutral	12	25.8	25.8	32.3
	Agree	25	48.4	48.4	80.6
	Strongly Agree	9	19.4	19.4	100.0
	Total	50	100.0	100.0	
The credit policy and procedure of the bank exactly comply with the regulations of National Bank		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	9	12.9	12.9	12.9
	Agree	25	48.4	48.4	61.3
	Strongly Agree	16	38.7	38.7	100.0
	Total	50	100.0	100.0	
The Liquidity risk policy, guidelines and procedures explain objectives and principles of liquidity risk management process clearly		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	11	16.1	16.1	16.1
	Agree	27	54.8	54.8	71.0

		Frequency	Percent	Valid Percent	Cumulative Percent
	Strongly Agree	12	29.0	29.0	100.0
	Total	50	100.0	100.0	

The credit risk strategy and policies help the bank to better manage the credit risk		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	3.2	3.2	3.2
	Neutral	9	12.9	12.9	16.1
	Agree	27	61.3	61.3	77.4
	Strongly Agree	11	22.6	22.6	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

Therefore, for the first statement 48.4% respondents agreed, 25.8% responded neutral, and 19.4% strongly agreed, while the rest 6.5% disagreed. On the second statement, 48.4% and 38.7% responded agree and strongly agree respectively while the rest 12.9% responded neutral. On the third statement, the 54.8% of respondents agreed while 29% strongly agreed and 16.1% were neutral. For the last statement on the table, 61.3 agreed with the statement, 22.6 strongly agreed and 12.9 were neutral while 3.2% disagreed with the statement.

It is evident that in the figure above though the percentage of the respondents that agreed and strongly agreed for each statement is higher in number than the rest, the percentage of the neutral and disagreed is also significant. Therefore, it is recommended for the bank to properly assess its policy and procedures of credit risk management in order to make it flexible according to changes in the market and in order to better manage the credit risk faced by the bank by complying with the proper guidelines of the National Bank's rules and regulations.

Table 10: The supervision or administration and lack of adequate system of the RMS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	5	6.5	6.5	6.5
	Disagree	10	32.3	32.3	38.7
	Neutral	20	38.7	38.7	77.4
	Agree	12	19.4	19.4	96.8
	Strongly Agree	3	3.2	3.2	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

In order to analyze the existence of ineffective supervision or administration and lack of adequate systems in performing the risk management strategy mechanism the respondents' survey results were found as stated in table 10. For this statement 38.7% showed they neither agreed nor disagreed. And 32.3 % of the respondents disagreed, while 19.4% and 6.5% of the respondents agreed and strongly disagreed respectively. The rest 3.2% strongly agreed there are ineffective supervision or administration and lack of adequate system in performing the risk management mechanism. Even though there are a higher number of respondents who disagree that there is ineffective supervision or administration and lack of adequate system in performing the RMS mechanism, there are a number of significant respondents that agree with the statement. This calls for the bank to make proper amendments to the existing lack in effective supervision and administration and as well to the lack of adequate system in performing the risk management mechanisms.

Table 11: Diversification of risk strategy for different economic sectors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	3.2	3.2	3.2
	Disagree	4	6.5	6.5	9.7
	Neutral	8	19.4	19.4	29.0
	Agree	23	41.9	41.9	71.0
	Strongly Agree	12	29.0	29.0	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

Table 11 shows the responses of the respondents for the statement, the bank diversifies the risk strategy disbursed for different economic sectors based on their economic classification in order to minimize the operational risk. Accordingly, 41.9% and 29% responded agree and strongly agree respectively. And 6.5% and 3.2% responded disagree and strongly disagree respectively, while the rest 19.4% were neutral.

4.4. Bank specific factors that influence the RMS practice of the bank

The following analysis is made on the second part of the questionnaire that studied the bank specific factors that influences credit risk management practice at the bank. Thorough analysis has been listed on the table 12 and the discussion as follows.

Table 12: Bank Specific factors that influence strategy of risk management

Item No.	Questions	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	
		F	%	F	%	F	%	F	%	F	%	F	%
a	The strategy of risk policy and procedures are effectively communicated throughout the concerned departments/staffs	3	9.7	7	22.6	7	22.6	8	25.8	6	19.4	50	100
b	The risk strategy and monitoring process can sometimes be influenced by directors, senior managers or influential staff of the bank.	1	3.2	1	3.2	4	12.9	17	54.8	8	25.8	50	100
c	The bank's risk strategy and approval process establishes Accountability to decision makers.	0	0	0	0	9	29.0	16	51.6	6	19.4	50	100
d	Lack of timely review is among the causes of high risk in the bank.	1	3.2	7	22.6	6	19.4	12	38.7	5	16.1	50	100
e	Risk and related department staffs play a great role for the effective implementation of the risk strategy policy and procedures.	2	6.5	0	0	2	6.5	13	41.9	14	45.2	50	100
f	Lack of qualified staff and the right number of staff is a problem to implement the risk strategy policies and procedures.	4	12.9	2	6.5	1	3.2	16	51.6	8	25.8	50	100
g	There is lack of training for the staff about risk Management strategy.	3	9.7	3	9.7	4	12.9	12	38.7	9	29.0	50	100
h	Existence of an appropriate policy and procedure is the main factor that influences the risk management practice at the bank.	4	12.9	5	16.1	18	58.1	4	12.9	4	12.9	50	100
i	The bank has policies and procedure in regards to credit exposure limits	2	6.5	6	19.4	5	16.1	15	48.4	3	9.7	50	100
j	The bank uses the credit risk management tools to handle the credit risk effectively	1	3.2	2	6.5	6	19.4	13	41.9	9	29.0	50	100

k	There is a difficulty in understanding the policy and procedure of the bank concerning credit risk management	0	0	14	45.2	8	25.8	7	22.6	2	6.5	50	100
l	The credit enforcement mechanism of the bank effective in terms of loan repayment.	0	0	5	16.1	6	19.4	16	51.6	4	12.9	50	100

Source: Own survey result from primary data sources, 2024

Bank specific factors that influence the risk management process may vary from bank to bank. However, unless the bank identifies the possible factors and sort out the existing problem, the mismanagement of risk will create much bigger problems and in turn it will lead the bank to lose its stand in the market. The above statements were raised in order to grasp the specific factors that influence the bank in question. And the respondents have stated their answer on the scale from strongly disagree to strongly agree.

The first statement stated whether the risk policy and procedures of the back are effectively communicated throughout the concerned departments/staffs. 25.8% and 19.4% responded agree and strongly agree respectively and the 22.6 and 9.7 disagreed and strongly disagreed, while 22.6% is indifferent. Even if the percentage of the agreeing side is a higher than the rest, there is a significant number of respondents that responded in disagreement and the other half is neutral. This clearly shows that the bank should work more on communicating the policy and procedures throughout the departments/staffs in order to gain its objectives with all on board.

The second statement studied whether the risk strategy and monitoring process can sometimes be influenced by directors, senior managers or influential staff of the bank. 54.8% percent of the respondents agreed and 25.8% strongly agreed. While 3.2% each went to disagree and strongly disagree and the rest 12.9% of the respondents chose neutral. More than 75% of the respondents agreed there is involvement of higher-level officials of the bank in the risk strategy and monitoring process. As this may hinder the proper practice and implementation of the policy and procedures of the bank, it must be taken seriously to amend the existing problem and limit the unnecessary involvement of individuals in the risk strategy process.

For the third statement that asked if the bank's risk strategy and approval process establishes accountability to decision makers, 51.6% agreed, 29% were neutral while 19.4% strongly agreed. This implies that more than half of the respondents agree that the credit granting and approval process is accounted for by the decision makers. However, a significant number of 29% of the respondents neither agreed nor disagreed implying the bank needs to work more on the issue of accountability of the bank's decision makers.

The next statement on table 12 item 'd' stated lack of timely review is among the causes of high risk in the bank. As shown in the table 22.6% and 3.2% of the respondents chose disagree and strongly disagree respectively and 387 % and 16.1% of the responses were agree and strongly agree respectively while the remaining 19.4% of the respondents were neutral.

In order to analyze whether the risk and related departments staff play a great role for the effective implementation of the risk policy and procedures statement item 'e' was presented to the respondents. When 45.2% of them responded strongly agree 41.9% of the respondents strongly agreed while 6.5% each responded strongly disagree and neutral as well. As it has been discussed in the literature review chapter of this paper, among the factors that have a significant impact on the risk management, the efficiency of the workers in the banking risk has been stated in the first place (Al-abedallat, 2016). Accordingly, the finding shows that more than 87% of the respondents showed their agreement. For as to this the bank must work in understanding of the significant role of the risk and related department workers and the impact they can have on the practice of RMS at the bank. The proper utilization of the human resource will enable the bank to get greater rewards and lower the credit risk.

Therefore, from the next statement it was founded that 51.6% and 25.8% of the respondents agreed and strongly agreed respectively that the lack of qualified staff and the right number of staff is a problem to implement the credit policies and procedures. While the 12.9% and 6.5% of the responses were strongly disagreed and disagree, the rest 3.2% is neutral. This implies that the bank needs to work on the lack of qualified and adequate staff numbers in order to enhance the RMS practice. Since the staff by itself is a major input for the needed practice to be fulfilled the bank has to give focus to the staff enhancement.

It can be observed from statement item 'g' how there is lack of training for the staff about risk management. 38.7% agreed while 29% of the responses were strongly agree and the rest 12.9%, 9.7% and again 9.7% responses were neutral, disagree and strongly disagree. Even though the main performers in the RMS practice process are the risk and related department, the study shows there is a lack of proper trainings for the staffs on risk management.

'Existence of an appropriate policy and procedure is the main factor that influences the risk management practice at the bank' for the statement the respondent's response was 58.1% neutral, 16.1% disagree and 12.9% each agree, strongly agree and strongly disagree. The next statement asks whether the risk policy and procedures of the bank demands collateral whenever granting any loan. And for this 48.4% agreed and 9.7% strongly agreed while 19.4% of the respondents disagreed, 16.1% were neutral and 6.5 strongly disagreed. According to the policy and procedure of the bank, security and the bank generally requests collateral from the clients. Staff risks are even secured to the extent of the employee's continued employment in the bank and against the buildings or vehicles purchased (Annual report, 2019/20).

The next statement dealt with whether the bank has policy and procedures in regards to risk exposure limits. And as to this among the respondents 41.9% agree and 29% strongly agree while 19.4% were neutral the rest 6.5% and 3.2% of the respondents disagreed and strongly disagreed on the statement. Even though there is a higher number of the respondents that responded in agreement, still the number of respondents that are indifferent is significant, which implies the bank either needs to communicate the developed policy and procedures down to the individual level staff that are involved in the risk management process.

When answering the statement 'there is a difficulty in understanding the policy and procedure of the bank concerning RMS', the respondents 45.2% responded disagree while the 25.8% were neutral the remaining 22.6% and 6.5% of the respondents agreed and strongly agreed respectively. This indicates that even though the policy and procedure of the RMS practice of the bank are easily understandable, there are still quite a significant number of staff that have not fully comprehended it yet. And this, like all the above-mentioned factors will create hindrance on the bank's RMS practice.

The last statement for this part states 'the risk enforcement mechanism of the bank is effective in terms of risk management'. Among the respondents, 51.6% agree, 12.9% strongly agree, 16.1% disagree while the remaining 19.4 were neutral. From this it can be observed that more than half of the respondents agree on the enforcement mechanisms effectiveness in terms of risk strategy. And yet still a significant amount of the staffs disagrees and is neutral on the issue raised.

4.5. Mechanisms used by the bank to handle risk

The following covers the third part of the questionnaire that emphasizes on the mechanisms used by the bank to handle risk. And this part has also been separated into four sub-groups according to risk management levels.

A. Risk Identification Table 13: Risk Identification

The bank identifies and prioritizes its main risks		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	3.2	3.2	3.2
	Disagree	9	19.4	19.4	22.6
	Neutral	3	3.2	3.2	25.8
	Agree	27	61.3	61.3	87.1
	Strongly Agree	8	12.9	12.9	100.0
	Total	50	100.0	100.0	
The bank registers the identified risk for further assessment		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	6.5	6.5	6.5
	Disagree	8	12.9	12.9	19.4
	Neutral	18	32.3	32.3	51.6
	Agree	15	41.9	41.9	93.5
	Strongly Agree	5	6.5	6.5	100.0
	Total	50	100.0	100.0	
The bank involves different professionals to identify credit risk		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	7	9.7	9.7	9.7
	Disagree	10	19.4	19.4	29.0
	Neutral	15	35.5	35.5	64.5
	Agree	14	29.0	29.0	93.5
	Strongly Agree	4	6.5	6.5	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

According to the above table 13, on the first statement, 61.3% of the respondents agree on the bank identifies and prioritize its main credit risks. 19.4% of the respondents disagreed while12.9% strongly agreed and 3.2% each strongly disagreed and were neutral. The second statement stated whether the bank registers the identified risk for further assessment and 48.4% of the respondents agreed while the

25.8% disagreed. On the third statement it was stated the bank identifies different professionals to identify credit risk and for this 29% and 6.5% agreed and strongly agreed respectively while 19.4 and 9.7 disagreed and strongly disagreed respectively. And the remaining 35.5% remained neutral. From these figures it can be observed that even if the bank identifies and prioritize its main risks then registers them for further assessment, there is a lack on the involvement of different professionals regarding credit risk. Lack of professional staff in the process is a drawback that must be corrected.

The core and basic thing for in order to get an effective CRM process is to first identify and analyze the existing and potential risks that can be found in any product or activity. In order to grasp this process in terms of risk identification the following statements were presented.

Table 14: Risk Identification on brainstorming and documentations

The bank gives due consideration to formal brainstorming risk identification		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	3.2	3.2	3.2
	Disagree	10	22.6	22.6	25.8
	Neutral	14	29.0	29.0	54.8
	Agree	18	35.5	35.5	90.3
	Strongly Agree	5	9.7	9.7	100.0
	Total	50	100.0	100.0	
The bank gives due attention to the quality of documents submitted by borrowers with respect to the business		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	12.9	12.9	12.9
	Disagree	5	9.7	9.7	22.6
	Neutral	4	6.5	6.5	29.0
	Agree	24	51.6	51.6	80.6
	Strongly Agree	11	19.4	19.4	100.0
	Total	50	100.0	100.0	
The bank demands a business plan from all clients to identify risk exposure		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	9.7	9.7	9.7
	Disagree	16	32.3	32.3	41.9
	Neutral	14	22.6	22.6	64.5

	Agree	9	25.8	25.8	90.3
	Strongly Agree	5	9.7	9.7	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

From table 14 the first statement stated whether the bank gives due consideration to formal brainstorming credit risk identification and from the respondents 35.5% and 9.7% showed their agreement on the statement while the 22.6% and 3.2% disagreed the rest 29% were neutral. From the second statement, 'the bank gives due attention to the quality of documents submitted by borrowers with respect to the business' 71% agreed with the statement while 22.6% disagreed and the rest 6.5% were neutral. And on the last statement the respondents were asked whether the bank demands a business plan from all clients to identify risk exposures. 42% of the responses were in disagreement while 35.5% agreed and the rest 22.6% were neutral.

Therefore, the above figures imply that the bank uses formal brainstorming as a means of credit risk identification and quality of the documents the borrowers submit for their loan process is taken due consideration. However, the bank does not request business plans from all the clients that need loan as the type of loan client may vary and not all are business oriented.

B. Risk Assessment and Analysis

Questions regarding the assessment and analysis of risk at the bank are discussed here below.

The first table 15 stated whether the bank uses numerical methods to assess credit risks, and the answers were as follows: 48.4% and 12.9% agreed and strongly agreed respectively while 12.9% and 9.7% of the respondents disagreed and strongly disagreed leaving the rest 16.1% to neutral responses. The implication of this figure is among the methods the bank uses to assess credit risk numerical method is prominent.

Table 15: The bank uses numerical methods to assess risks

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	9.7	9.7	9.7
	Disagree	7	12.9	12.9	22.6
	Neutral	8	16.1	16.1	38.7

		Frequency	Percent	Valid Percent	Cumulative Percent
	Agree	22	48.4	48.4	87.1
	Strongly Agree	7	12.9	12.9	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

Table 16 on the other hand stated whether the bank uses qualitative methods to assess risk and the responses were similar with the above statement implying that more than half of the respondents agree that the bank also uses qualitative methods to assess credit risk.

Table 16: The bank uses qualitative methods to assess liquidity risks

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	5	6.5	6.5	6.5
	Disagree	5	6.5	6.5	12.9
	Neutral	12	22.6	22.6	35.5
	Agree	20	48.4	48.4	83.9
	Strongly Agree	8	16.1	16.1	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

Table 17: The bank effectively assesses the likelihood of different risks occurring

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	9.7	9.7	9.7
	Disagree	6	9.7	9.7	19.4
	Neutral	15	32.3	32.3	51.6
	Agree	17	38.7	38.7	90.3
	Strongly Agree	6	9.7	9.7	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

The above statement on table 17 assessed if the bank assesses the likelihood of different risks occurring and 19.4% disagreed and 32.3 were neutral responses while the rest 48.4% agreed that the bank effectively assesses the likelihood of different risks occurring. This enables the bank to get a fore start in the credit risk management process.

Table 18: Developing action plans for implementing the decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	9.7	9.7	9.7
	Disagree	6	9.7	9.7	19.4
	Neutral	9	16.1	16.1	35.5
	Agree	23	54.8	54.8	90.3
	Strongly Agree	6	9.7	9.7	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

The above table stated 'the bank develops action plans for implementing decisions and management plans for identified risks. Among the respondents the total of 64.5 agreed while

19.4 disagreed while the rest 16.1 were neutral, implying that a significant number of the respondents clearly agreed that the bank develops action plans for implementing decisions and management plans for identified risks. This helps a great deal in the process of credit risk management practice of the bank.

Table 19: The documentation of the bank's risk management processes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	3.2	3.2	3.2
	Disagree	9	19.4	19.4	22.6
	Neutral	14	29.0	29.0	51.6
	Agree	18	41.9	41.9	93.5
	Strongly Agree	5	6.5	6.5	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

Regarding the documentation of the risk management guidance of the bank to the staff, the statement in the table 19 stated 'the bank's risk management processes are well documented and provide guidance to staff about management risk'. And to this 41.9% and 6.5% agreed and strongly agreed respectively while 19.4% and 3.2% disagreed and strongly agreed and the rest 29% were neutral. This implied that the bank has a guidance documents well prepared for the staffs to use in order to know about the credit risk management practice of the bank.

C. **Risk Monitoring**

Table 20: Action plans in implementing decisions about identified risk

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	13	25.8	25.8	25.8
	Neutral	7	12.9	12.9	38.7
	Agree	24	51.6	51.6	90.3
	Strongly Agree	6	9.7	9.7	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

Regarding the statement on table 20 on 'the bank's response to risk includes action plans in implementing decisions about identified risk' 51.6% and 9.7% of the respondents agreed and strongly agreed respectively while 25.8% and 12.9% were disagree and neutral respectively. Even though more than half of the respondents agreed with the statement, there is a significant number of respondents that disagree. This calls for the bank to focus more on the action plans that could facilitate the implementations of decisions on the identified risks in order to minimize the potential risks.

On the below table 21 it was stated whether monitoring the effectiveness of risk management is an integral part of routine management reporting and 67.8% agreed while 9.7% disagreed and the rest

22.6 were neutral. This implies that among the routine management reporting of the bank, monitoring of the effectiveness of risk management in the main.

Table 21: Monitoring the effectiveness of risk management and reporting

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	9	9.7	9.7	9.7
	Neutral	11	22.6	22.6	32.3
	Agree	23	58.1	58.1	90.3
	Strongly Agree	7	9.7	9.7	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

Table 22: The bank does strict follow-up on repayment of the risk

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	9.7	9.7	9.7
	Disagree	5	12.9	12.9	22.6
	Neutral	14	25.8	25.8	48.4
	Agree	16	32.3	32.3	80.6
	Strongly Agree	19	19.4	19.4	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

Table 22 stated whether the bank do strict follow-up on risk of the loan and 32.3% and 19.4% of the respondents agree and strongly agreed respectively while 12.9% and 9.7% disagreed and strongly disagreed and the remaining 25.8% were neutral. This figure implies, even if the number of the agreeing respondents is higher than the rest, there is a significant amount that did not agree that the bank followed strict follow-up method for loan repayment process.

Table 23 assessed whether the bank monitors the allocation of the loan to the intended purpose and its progress. And to this 29% each agreed and was neutral while 12.9% strongly agreed and the rest 29% disagreed. This implies that the bank lack in monitoring the allocation of the disbursed loan to the intended purpose and its ongoing progress.

Table 23: The bank monitors the allocation of the risk to the intended purpose and its progress

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	16.1	16.1	16.1
	Disagree	8	12.9	12.9	29.0
	Neutral	14	29.0	29.0	58.1
	Agree	14	29.0	29.0	87.1
	Strongly Agree	5	12.9	12.9	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

Table 24: Monitoring results communicated to risk performers for further actions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	7	9.7	9.7	9.7
	Disagree	11	22.6	22.6	32.3
	Neutral	12	25.8	25.8	58.1
	Agree	15	35.5	35.5	93.5
	Strongly Agree	5	6.5	6.5	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

The above statement assessed whether the monitoring results communicated to credit performers for further actions and 35.5% and 6.5% responded agree and strongly agree respectively while 22.6% and 9.7% disagreed and strongly disagreed respectively and the rest 25.8% were neutral. This implies that the bank needs to work more on the results of monitoring being communicated to the credit performers so that misinformation and miscommunication will not be created.

D. Risk Evaluation

Table 25: Continuous review and evaluation of the techniques used in risk management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	3.2	3.2	3.2
	Disagree	7	12.9	12.9	16.1
	Neutral	14	29.0	29.0	45.2
	Agree	19	41.9	41.9	87.1
	Strongly Agree	7	12.9	12.9	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

To assess the risk evaluation process of the bank the statement ‘the bank emphasizes on continuous review and evaluation of the techniques used in risk management’ has been stated. And for this 41.9% of the respondents agreed, while 16.1% of the respondents disagreed leaving the 29% of the respondents to be indifferent. This figure implies that continuous review and evaluation of the techniques that are used in risk management are given a greater emphasis at Berhan bank.

Table 26: The bank is able to accurately evaluate the costs and benefits of taking risks

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	3.2	3.2	3.2
	Disagree	9	16.1	16.1	19.4
	Neutral	9	16.1	16.1	35.5
	Agree	19	41.9	41.9	77.4
	Strongly Agree	11	22.6	22.6	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

It is any organizations obligation to accurately evaluate the costs and benefits of taking risks to avoid any unwanted occurrences. On the above table it is stated whether Berhan bank does an accurate evaluation of the costs and benefits of taking risks and as to this 77.4% agreed while 19.4 disagreed and the remaining 16.1 were neutral. These shows that a significant number of respondents agree that the bank is able to accurately evaluate the costs and benefits of taking risk.

Table 27: The bank is able to accurately evaluate and prioritize different risk treatments

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	3.2	3.2	3.2
	Disagree	9	16.1	16.1	19.4
	Neutral	10	16.1	16.1	35.5
	Agree	21	54.8	54.8	90.3
	Strongly Agree	7	9.7	9.7	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

From the above table figures, the total of 64.5% agree with the statement ‘the bank is able to accurately evaluate and prioritize different risk treatments’ while the 19.3% disagrees. Therefore, this indicates that the accurate evaluation and prioritization of risk treatments exist in the banks CRM process.

Table 28: Evaluation of the effectiveness of the existing controls and risk management responses

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	5	6.5	6.5	6.5
	Disagree	10	16.1	16.1	22.6
	Neutral	6	9.7	9.7	32.3
	Agree	23	58.1	58.1	90.3
	Strongly Agree	6	9.7	9.7	100.0
	Total	50	100.0	100.0	

Source: Own survey result from primary data sources, 2024

The respondents answer for the statement 'the bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses', 58.1% chose agree and 9.7% strongly agree, while 16.1% and 6.5% disagree and strongly disagree respectively, the remaining 9.7 were indifferent. This indicates that Berhan bank's response to risk is based on evaluations of the existing controls and risk management responses.

4.6. Discussion of the analysis and summary of the open ended questions

A. Discussion of the analysis

According to the finding shown on the above table the mean values from the collected data shows that for the first part of the questionnaire data.

The first part of the questionnaire discussed on the first objective of the study that is credit risk management framework of the bank in relation to the credit risks faced at the bank. The following is the discussion based on the findings stated in the study.

It has been stated in the finding that majority of the respondents agree that the bank uses the RMS tools to handle risk effectively and also the bank has a RMS framework that helps reduce the risks faced by the bank. As RMS tools can help the bank fight against risks that it faces while processing credit, the bank's status in giving a priority to having this tools and using the framework will enable it to have an environment that is safe against credit risk or at least in the minimum. It has been stated also, in the finding of this paper, that the bank has policies and procedures in regards to risk exposure limits and that is timely and appropriately updated. This implies that when the bank has a risk policy and procedure that is timely and appropriately updated, it can compete in the current market and will also protect its livelihood from failure due to lack of updated tool to handle risk.

The other point the survey analyzed was whether the policies and procedures of the bank enhances effectiveness of monitoring and controlling of the operational risk. As the finding stated more than average of the respondents agreed with the statement, implying that the policies and procedure of the bank enhances effectiveness in helping to monitor and control the credit risks faced. This by itself can facilitate in reduction of unnecessary risks the bank tends to face. As it has been discussed in the introduction part of this study, the main tools against operational risk is the existence and proper use of policy and procedures of the bank similarly throughout the departments responsible in handling operational risk process.

The other part of the finding dealt with the policy and procedure's flexibility, its complying ability with the NBE's regulations and guidelines and its ability to explain the objectives and principles of RMS processes clearly. The finding implied that the policy and procedure are flexible and also comply with the guidelines and directives of the NBE.

The second part of the questionnaire dealt with bank specific factors that influence the RMS practice of the bank. As factors that influence the RMS practice of a bank are various in numbers, the questions were designed to address the major parts which are discussed below.

Thorough communication of the bank's risk management policy and procedures and all other guidelines and directives to the staff enable the creation of uniform understanding and help as a guidance in order to avoid mismanagement created in the practice and limits a biased judgment based decisions that directly or indirectly is concerned with the RMS practice. However the finding of the study shows that the bank has a lack in this regards. This in turn implies there is a negative impact on the process or risk management unless it is fixed quickly.

In the process of liquidity risk management practice, there are times the involvement of higher managerial levels becomes either important or sometimes biased and unnecessary. As long as their involvement comply with the procedures of the risk management of the bank and it does not base on their personal judgment, this can be used as an input for the bank in minimizing risks faced by the bank. However the finding of the study showed that there is an involvement of the higher management which influences the bank's risk management and monitoring process.

It has been identified in the study that even though the staff should be given priority because the work force is the one behind the wheel in the process of practicing RMS, there is lack of qualified staff and the right number of staff, which in turn affects the effective implementation of the risk policy and procedures. It has also been founded that there is a lack of training given for the staff members on the RMS. This implies that unless the bank starts to work on improving this problem it will turn to create further riskier problems for the bank. Since the well-equipped and trained staff will be a great input for the implementation of the RMS practice in the bank, the bank must work towards equipping its staff with necessary knowledge and also hiring the appropriate number of staff will reduce the error and stress created due to work overload per person.

The third part of the questionnaire focused on the third objective of the study that is mechanisms used by the bank to handle risk. As it has been explained in the findings, this part was separated into four sub-groups namely risk identification, risk assessment and analysis, risk monitoring and risk evaluation.

Risk identification dealt with issues that related with the banks practice in identifying and prioritizing its main risk, registration of the identified risks, and the involvement of different professionals in the identification process. The finding showed that the bank uses identification and prioritization method as mechanisms to handle risk. It was also founded that the involvement of different professionals is less than expected. On the other hand it was founded that the bank gives due consideration to the quality of documents accepted from the borrowers which is a very good point since the main process of the practice is mainly based on proper handling of documents focusing on the quality of the documents enable the bank to handle its risks by keeping it to the minimum.

Risk assessment and analysis part covered all the mechanisms the bank uses to assess and analyze its risks. The finding showed that the bank uses both qualitative and quantitative methods to assess the risks. And the finding also showed that the bank effectively assesses the likelihood of different risk occurring.

Risk monitoring identified the issues relating with the practicability of the RMS within the bank. Even though the banks response to risk has been identified that it includes action plans in implementing decisions about the identified risk, the study findings have shown that that there is lack of routine management reporting for the monitoring of effectiveness of risk management. And also the monitoring of the allocation of the strategy for the intended purpose and its progress lacks follow-up on the side of the bank.

Risk evaluation involved the issues concerning the evaluation process after identification, assessment and monitoring part is done. The finding of the study showed that the bank emphasizes the continuous review and evaluation of the techniques used in the risk management, the bank is able to accurately evaluate and prioritize different risk treatments. If the risks the bank will face are properly evaluated and the better choice is identified, the RMS practice of the bank will enable the bank to get higher payoffs.

Therefore the findings of the study as discussed above showed that the bank clearly has CRM framework that works in relation to its credit risks and specific factors that influence the bank in the implementation of the practice are among many others lack of thorough communication of the policy and procedures of the CRM to the staff, involvement of higher level managements, lack of qualified staff, lack of training for the staff and while the mechanisms the bank uses to handle credit risk are risk identification, risk assessment and analysis, risk monitoring and risk evaluation methods.

B. Summary of the open ended questions

The open ended questions have given the respondents the opportunity to elaborately address the issues raised in the close ended section. The points raised here address the effectiveness of the RMS practice, mechanisms that can be used to improve the practice, challenges faced by the bank to while implementing the practice and the specific strategies the bank uses in order to attain the implementation of the RMS policies and procedures of the bank. The respondent’s answers and as well their respective implications have been summarized as follows:

1. Do you think the risk management practice is effective at the bank?

A significant number of the respondents answered ‘Yes’. And when they reasoned out why the respondents answered this rather very similarly and they stated that the current credit risk management of the bank is at a good stage however, there is a lot that can be done in order to improve it and get the results needed to make it effective. Therefore the respondents informed points that need attention by listing the drawbacks the bank is facing. To mention few:

- Lack of communication of the policies and procedures to the front-line workers in the credit departments

- Lack of adequate professional's training on the subject matter
- Because most of the risk management practice is done after the loan is disbursed
- Proper implementation lacks coherence
- Insufficient management follow-up

This implies that even though there is an effective risk management practice at the bank the existence of drawbacks mentioned above limits the practice to be more effective in handling the risks faced by the bank. Therefore proper analysis and amendment should be made in order to safe keep the bank from incurring further mismanagement problem of the risk management practice and also to help establish an environment where proper communication about the policies and procedures throughout the departments is established, professional staff are added to the work force and also sufficient management follow-up is performed

2. What are the possible and better mechanisms that the bank can use to improve the risk management practice at the bank?

The bank has risk management policies and procedures that have been formulated by the bank's separate department that reports to the bank risk committee that is responsible for managing risks. The respondents gave the following suggestions on better mechanisms that can be useful to the bank to improve the risk management practice at the bank.

- Equipping the staff with the proper knowledge by giving trainings routinely
- Reviewing and updating the policy and procedures according to their need in the market
- Establishing a good risk management environment in the bank.
- Routine based follow-up on the clients

When the respondents answer to the above question is analyzed, proper equipment of the staff with the necessary skills on the RMS practice will enable the bank to facilitate a practice that serves well for the proper management of the risks before they occur. And similarly, reviewing and updating of the policy and procedures by themselves gives the bank a chance to compete in the current market with tools that are timely and appropriate. For the radical changes and new innovations taking place in the financial sector, flexibility of institutions plays a critical role. Therefore the bank benefits more by establishing a good CRM environment.

3. What are the main challenges of operation management faced at the bank?

In order to implement the proper operation risk management practice, the bank faces the following challenges as mentioned by the respondents.

- Inefficiency in data management
- Insufficient trainings for the staff
- Lack of strict follow-up
- Purposefully misleading documentations
- Geo-political risk

According to the survey, the above mentioned are the challenges faced at the bank that hinders proper risk management practice. Risk management involves proper data management. However, study shows the existence of inefficient data management practice in the bank. This can be connected to the second point raised that is insufficiency of trainings for the staff. Unless and otherwise the staff are given proper training, the occurrence of inefficiency in data management is inevitable. The study also shows that there is lack of strict follow-up, purposeful misleading documentation and geo-political risks.

4. What strategies can be taken to attain implementation of the risk management policies and procedures?

The respondent’s suggestion on strategies that can be taken to attain implementation of the risk management policies and procedures of the bank are the follows:

- The board and senior management oversight
- Proper and timely updating of the policies and procedures
- Giving trainings to the risk and related department staffs
- Establishing risk grading systems to minimize risk

- Establishing regular reporting mechanisms

The main strategy that can be used effectively in the practice of RMS within the bank is an oversight of the board and senior management. As mentioned in the above analysis, this will help solve the problem of lack of strict follow-up and also facilitate the proper application of the policies and procedures keeping their timely reviewing and updating. It has also been analyzed from the study that another strategy that can be taken to attain the implementation of the RMS policies and procedure of the bank is equipping the staff with proper trainings about the policies and procedures. Another point mentioned was the establishment of risk grading system that minimizes the risks faced by the bank. This helps the bank to identify the state and nature of the risks the bank faces through the process of risk strategy. And also enables the bank to differentiate the risks that should be avoided and the risks that should be taken.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

In this chapter the conclusions of the findings of the paper and as well the recommendations given in line to the findings of the paper are stated.

5.1. Conclusion

The banking business in general, is the back bone for the growth and change of a country. Risk strategy services rendered by the bank's acts like a catalyst in the development process, since funds are the basic inputs for any activity. Therefore, when the bank's risk management practice is developed and implementation of proper policy and procedures are facilitated, the returns will be helpful not only for the bank, but also for the economy of the country in general.

As this paper analyzed the effectiveness of risk management of Berhan bank, the basic research questions that have been discussed were risk management framework of the bank in relation to the risks faced at the bank, bank specific factors that influence risk management and possible mechanisms that help in reduction of risk.

According to the analysis, the risk management strategy and related department staff are found at younger age group and their education level is mostly degree holders and some updating. Most of them are single and their credit related work experience showed more than 75% of the risk strategy and related department staffs have 1-5 years of experience. This implied that the more than half of the bank staffs at the risk mangement strategy and related departments have lower work experience on risk.

As for the RM policy and procedures of the bank, majority of the respondents agreed that the bank uses credit risk management tools to handle risks effectively and that the bank has a risk management framework that helps in the reduction of risks, while the remaining few were neutral or disagreed.

In regards to the RM policy and procedures of the bank agreeing with the NBE's regulation, the majority agreed that it comply with the regulations stated by the NBE. And also, the majority agreed on how the risk policy, guidelines and procedures explain the objectives and principles of the risk management process clearly while the rest responded neutral and none disagreed.

The same is true about the diversification of the loans disbursed for different economic sectors that is based on their economic classification in order to minimize the risk. The bank uses diversification of the risk strategy in order to keep its risks at lower level. And so, the majority of the respondents showed their agreement while the rest were neutral and in disagreement.

Therefore, from this analysis it can be concluded that the bank's RM framework complies with the regulations of the NBE and the bank uses this framework to handle its risks properly.

For the bank specific factors that influence risk management, lack of thorough communication of the policy and procedures throughout the concerned departments/staffs and lack of timely review on the risk strategy and monitoring process have been stated as a drawback on the risk management practice at the bank and majority of the respondents has shown their agreement.

Lack of qualified staff and lack of proper trainings for the staff about the RM practice policy and procedures of the bank have been founded to be the bank specific factors that influence the credit risk management.

As for the mechanisms used by the bank to handle operational risk the paper sub grouped the process of credit risk into risk identification, risk assessment and analysis, risk monitoring and risk evaluation. From the analysis it can be concluded that the bank identifies and registers the identified risks in order to take further action before the loan disbursement starts. And this also supported by proper documentation of the guidelines that gives a guidance to the staff. However, the bank needs to work more on the risk monitoring mechanisms, as the finding shows that there is lack of routine management reporting on the monitoring the effectiveness of the risk management as an integral part of the reports. And also, strict follow-up measures are insufficient towards helping the repayment of loans which creates higher risks for the bank.

5.2. Recommendation

While the risk management practice at Berhan bank is at a fairly good state despite the risks the bank is facing, I would like to recommend few points to consider for the bank's risk management strategy and related departments and other concerned bodies.

- ✓ To get the result needed from the RMS practice the bank should have to make continuous review, updates and evaluations on the way risk is managed. The proper reviewing and timely updating and also evaluation of the methods the bank is currently using to handle risk can be a good method to handle the risks faced by the bank. As the bank already has a framework that helps it to manage its risks appropriately, the continuity of the practice will enable the bank to reap more profit from the process.

- ✓ In order to effectively manage the risks faced by the bank timely review of the follow-up and routine reporting of the action plans should be done on regular basis. For this reason the involvement of the board and senior management oversight is recommended in order to facilitate the practice of the RMS to go smoothly. And creating a system of routine reporting and reviewing for the set action plans will help the bank to practice efficient risk management.
- ✓ The bank should make frequent credit risk assessments and monitoring of the risk evaluation, and weigh the risks it should take and/or avoid in line with its strategies of risk evaluation and take corrections where necessary. Analyzing the strategies the bank is currently using to handle its credit risks and sorting out better strategies that have been analyzed as mentioned in this paper analysis and putting much effort to implement them is recommended for the bank to improve its CRM practice.
- ✓ The bank management should give more emphasis to equip the staffs with proper training of the policies and procedures of the CRM in order to help the staff have the bank's interest at heart and implement the policy and procedures properly.
- ✓ The bank should develop credit policy that is in line with the current situation of the market. It is evident that the bank must know about the practices that are taken by other competitors in the market in general and formulate a strategy that helps it compete. And this strategy should be in line with the situation of the market

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Appendix: Research Questionnaire

St. Mary's University

The purpose of this questionnaire is to carry out a research for the partial fulfillment of master's degree in MBA in Accounting and Finance at St. Mary's University. The paper focuses on the topic of "**ANALYZING THE EFFECTIVENESS OF RISK MANAGEMENT STRATEGY: THE CASE OF BERHAN BANK S.C.**" The outcome of the study will be used to suggest possible solutions for problems identified on the captioned topic. Thus, your free will cooperation in giving the reliable information is very important. Any information provided by you will only be used for academic purposes and as a result it will be kept confidential and utmost anonymity.

Thank you in advance for taking your time to fill out this questionnaire. If you need any further assistance, please do not hesitate to contact me in the following address.

Meseret Eguale Tel. 0913521435
Email address: mesereteguale@gmail.com

Please use a✓mark and put the answer on the space provided.

I. General Information:

1. Gender: Male: ☐ Female: ☐
2. Age:
   20-30 years ☐ 31 -40 years ☐ 41 -50 years ☐ above 50☐
3. Years of service: ___________
4. Marital status: Married: ☐ Single: ☐
5. Educational level:
   Diploma: ☐ BSc/BA: ☐ MSc/MA: ☐
   PhD: ☐ Other ____________________________
6. What is your current position in Berhan Bank S.C.? ____________________________________

7. Risk management strategy related experience within the bank

1-5 years ☐ 5-10 years ☐ above 10 years ☐

II. Research related question

Please tick (✓) mark on scale ranging from Strongly Agree to Strongly Disagree. Where, SD = Strongly Disagree, DA=Disagree, N=Neutral, A=Agree, SA=Strongly Agree.

	Effective risk management framework of the bank in relation to the risks strategy faced at the bank	SD	D	N	A	SA
a	The bank uses the effectiveness of risk management tools to handle the risk strategy effectively					
b	The bank has a risk management strategy framework that helps to reduce the risks faced by the bank					
c	The bank has policies and procedures in regards to risk strategy exposure limits and that is timely and appropriately updated. Dkq;l;w;					
d	The risk management policies and procedures of the bank enhance effectiveness of monitoring and controlling the risk strategy.					
e	The risk strategy manuals are up to date and convenient for risk reduction formation.					
f	The Banks risk management policy and procedure is flexible and takes into account the changes in the market					
g	The risk policy and procedure of the bank exactly comply with the regulations of National Bank					
h	The strategy of risk policy, guidelines and procedures explain objectives and principles of risk management Effectiveness process clearly.					
i	The risk strategy and policies help the bank to better manage the credit risk					
j	There is ineffective supervision or administration and lack of adequate system in performing the effectiveness risk management mechanism					
k	The bank diversifies the strategy for different economic sectors based on their economic classification in order to minimize the risk.					

	Bank Specific factors that influence strategy of risk management	SD	D	N	A	SA
A	The strategy of risk policy and procedures are effectively communicated throughout the concerned departments/staffs					
B	The risk strategy and monitoring process can sometimes be influenced by directors, senior managers or influential staff of the bank.					
C	The bank's risk strategy and approval process establishes Accountability to decision makers.					
D	Lack of timely review is among the causes of high risk in the bank.					
E	Risk and related department staffs play a great role for the effective implementation of the risk strategy policy and procedures.					
F	Lack of qualified staff and the right number of staff is a problem to implement the risk strategy policies and procedures.					
G	There is lack of training for the staff about risk Management strategy.					
H	Existence of an appropriate policy and procedure is the main factor that influences the risk management practice at the bank.					
I	The bank has policies and procedure in regards to credit exposure limits					
J	The bank uses the credit risk management tools to handle the credit risk effectively					
K	There is a difficulty in understanding the policy and procedure of the bank concerning credit risk management					
L	The credit enforcement mechanism of the bank effective in terms of loan repayment					

	Mechanisms used by the bank to handle risk	SD	D	N	A	SA
1.	**Risk Identification**					
a	The bank identifies and prioritizes its main risks					
b	The bank registers the identified risk for further assessment					
c	The bank involves different professionals to identify risk					
d	The bank gives due consideration to formal brainstorming risk identification					

e	The bank gives due attention to the quality of documents submitted by risk strategists with respect to the business.					
f	The bank demands a business plan from all clients to identify risk exposure					
2.	**Risk Assessment and Analysis**					
a	The bank uses numerical methods to assess risks					
b	The bank uses qualitative methods to assess risks					
c	The bank effectively assesses the likelihood of different risks occurring					
d	The bank develops action plans for implementing decisions and management plans for identified risks					
e	The bank's risk management processes are well documented and provide guidance to staff about the management risk					
3.	**Risk Monitoring**					
a	The bank's response to risk includes action plans in implementing decisions about identified risk					
b	Monitoring the effectiveness of risk management is an integral part of routine management reporting					
c	The bank monitors the allocation of the risk to the intended purpose and its progress					
d	Monitoring results communicated to risk performers for further actions					
4.	**Risk Evaluation**					
a	The bank emphasizes on continuous review and evaluation of the techniques used in risk management					
b	The bank is able to accurately evaluate the costs and benefits of taking risks					
c	The bank is able to accurately evaluate and prioritize different risk treatments					
d	The bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses					

III. Open ended questions

1. Do you think the risk management practice is effective at the Bank? Please reason out why/why not.

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2. What are the possible and better mechanisms that the bank can use to improve the risk management practice at the bank?

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3. What are the main challenges of risk management strategy faced at the bank?

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4. What strategies can be taken to attain effective implementation of the risk management policies and procedures?

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Thank you!