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College of Business and Economics

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The Effect of Management Practices of the Components of Bank Specific Risks on the Overall Risk Management Practice in The Case of Commercial Banks in Ethiopia

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DECLARATION

I, the undersigned, declare that this thesis comprises my own work in compliance with internationally accepted practices; I have fully acknowledged and referred all materials used in this thesis work.

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This is to certify that the thesis prepared by **Fikru Abreham**, entitled ***The effect of management practices of the components of bank specific risks on the overall risk management practice in the case of commercial banks in Ethiopia*** and submitted in partial fulfillment of the requirements for the degree of Master of Science (in Management) complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Abstract

The general objective of the study is to examine the effect of Bank specific risk management practice components on the overall risk management practice in the case of commercial banks in Ethiopia. The study deployed descriptive and explanatory research designs. The target population of the study was commercial banks in Ethiopia. Sample respondents were selected from risk management divisions of sampled commercial banks at head offices, based on purposive sampling technique. A total of 170 respondents were selected as a respondent of this study. The data collection instrument employed was closed ended structured questionnaire containing 52 questions of five-points of Likert scale. The data was analyzed using descriptive statistics and regression analysis techniques The Statistical Package for Social Sciences (SPSS) version 24 was used to analyze the data. Out of the 170-questionnaire distributed to the sample respondents, 166 questionnaires were received back properly filed, making response rate was 97.7 percent, which is sufficient to produce reliable study results. According to the results of the descriptive analysis, commercial banks in Ethiopia have good practices for managing credit risk, market risk, liquidity risk, operational risk, and all other types of risk. They also have good practices for understanding risk, identifying risk, analyzing risk, monitoring risk, and controlling risk. The correlation analysis results also attested the positive and statistically significant association of risk management practice with its aspects. However, the results of the regression analysis showed that among the independent variables included in the regression model, operational risk management, liquidity risk management, risk understanding, managing market risk and risk identification, respectively have statistically significant positive effect on the practice of risk management, in commercial banks in Ethiopia. Therefore, putting in place a comprehensive and effective risk management arrangement is not only a successful endeavor to improve the performance of commercial banks, but also an essential procedure to satisfy regulatory obligations.

Key words:

Risk Understanding, Risk Identification, Risk Management, Risk Management Practice

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Fikru Abreham

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The concept of risk refers to the uncertainty that results from numerous sources and has an impact on a business's nature either directly or indirectly (Ahiti et al., 2017). It also involves several financial and management components. Risk might make it more difficult to succeed in reaching some goals. Depending on the type of danger in a particular situation, being might be influenced by any external or internal elements. Risk exposure can have negative effects that are severe (Muhammad et al., 2018).

In emerging countries' financial systems, commercial banks are essential. (wood & McConney, 2017).Commercial banks serve the determination of aiding the accrual and allocation of capital by routing different savings into loans to governments and companies (Musonda, 2020). The transactions of commercial banks thus consist of making credits to clients and the acquisition of investment securities in the market place. Commercial banks also offer a variety of other financial services, including a way to store financial data, move cash, and make deposits (Mensah, 1997). These services include the sale of pension plans to credit coverage. According to Musonda (2020), a bank is a type of financial institution that uses client money put for investments, pays it out when needed, offers interest-bearing loans, and swaps currencies.

Banks are unique among institutions since risks are a part of everything they do. Commercial banks use their own balance sheets to take on the risks of their clients in their capacity as financial intermediaries (Wood & McConney, 2017). Commercial banks want to make money, but doing so comes with expenses. As a result, in order to maximize their profits, commercial banks must take on risk; otherwise, they would only make average profits (Aliu et al., 2019).

Increased risk-taking by banks in pursuit of this profit-maximization goal could result in losses that jeopardize not just the security of investors' and depositors' money, but also the health of the economy (Soyemi et al., 2014; Yahaya et al., 2015). As a result, even though we recognize that risks are a crucial component of the banking industry, it is obvious that a

balance needs to be achieved.Commercial banks must manage their risks to ensure their financial performance, in other words (Wood & McConney, 2017).

Because of this, one key issue that forces bank managers to take seriously and invest time and energy in is how to prevent and control risks in the process of pursuing profit (Aliu et al., 2019). Therefore, the purpose of this study was to evaluate the risk management procedures used by commercial banks doing business in Ethiopia.

1.2 Statement of the problem

The ability of financial institutions to mediate between units that are in surplus and those that are in deficit contributes significantly to the growth and development of every economy (Aliu et al., 2019). However, the effectiveness and efficiency of these roles depends on the degree of financial system development.

Being one of the most important financial institutions, Commercial banks serve the determination of aiding the accrual and allocation of capital by routing different savings into loans to governments and companies. The transactions of commercial banks thus consist of making credits to clients and the acquisition of investment securities in the market place (Musonda, 2020). Commercial banks help businesses run smoothly and are crucial to a nation's economic growth (Ishtiaq, 2015). Banks are essential for financial stability, credit distribution, economic growth, and the competitiveness and expansion of industrial and service enterprises, claim Molyneux and Wilson (2007). In an economy where there are several financial and non-financial risk variables, banking is one of the most complicated industries (Wood and Kellman, 2013).Commercial financial institutions are significantly exposed to a variety of risks because of their business model and exposure to huge amounts of capital, including liquidity risk, credit risk, market risk, interest rate risk, and foreign currency risk (Muhammad et al., 2018). The rapid evolution of these risks over time constituted a higher threat to banking operations as well as to their continuous existence, in addition to the nature and complexity of these risks (Abdullah and Ahmad, 2012).

Although, risks are inevitable, unless they are properly managed, they may cause some serious consequences that hinder the success and survival of commercial banks (Muhammad et al, 2018). This in turn makes risk management practice a paramount important especially for the banking industry to remain competent and at least survive in the current stiffly

competitive business environment. When investors and counterparties invest financial plans they want, they can do so with greater confidence thanks to effective and sound risk management (Aliu et al., 2019).

Al-Tamimi and Al-Mazrooei (2007) state that the main objective of financial institutions, especially commercial banks, is to maximize profits and deliver the most value to shareholders by providing a wide variety of financial services through risk management. Profit maximization does not come without danger, on the contrary, it is closely and favorably related to risk. Accordingly, if one rises, the other will follow and vice versa (Muhammad et al., 2018).

As a result, a bank must be aware of the risks it is exposed to and ensure that those risks are properly handled (Al-Tamimi and Al-Mazrooei,2007).Furthermore, effective risk management can lead to a better-balanced trade-off between reward and risk, which could result in a favorable future position (Fatemi and Fooladi, 2006). Therefore, as commercial banks are highly venerable for various risks, putting in place effective risk management system and implementing it appropriately is a must in this regard.

Although there are several research on the risk management methods of commercial banks all over the world, including in Ethiopia, the majority of these studies relied on secondary data and examined how these practices affected the performance of the banks. Therefore, utilizing primary data collected from experts and managers of risk management divisions in commercial banks, this study aims to close this gap in the literature by investigating the relationship between risk management practice of commercial banks in Ethiopia and its components in Ethiopia.

1.3 Research Questions

Based on the statement of the problem this study sought to answer the following three research questions;

- How is the statusof the overallbank specific risk management practice and its components in commercial banks in Ethiopia?
- What is the association between the overall bank specific risk management practice and its components in commercial banks in Ethiopia?

- What is theeffect of the various aspects of risk management practices on the overall risk management practice of commercial banks in Ethiopia?

1.4 Objective of the study

1.4.1 General objective of the study

The general objective of the study is to examine the effect of management practices of the various components of the bank specific risks on the overall risk management practice in the case of commercial banks in Ethiopia.

1.4.2 Specific objectives of the study

- To assess the status of the overallbank specific risk management practice and its components in commercial banks in Ethiopia?
- To examine the association between the overall bank specific risk management practice and its components in commercial banks in Ethiopia?
- To investigatethe effect of the management practice of the various components of bank specific risk on the overall risk management practice of commercial banks in Ethiopia?

1.5 Significance of the study

After the Global Financial Crisis, the topic of risk management in banking institutions has drawn the attention of many researchers and moved to the forefront of discussion. As a result, there is a growing argument that this industry has to embrace efficient risk management systems in order to survive and thrive. Particularly in developing nations like Ethiopia, the banking industry contributes more to the growth of the national economy. The commercial banks' risk management practices have a significant impact on the stability and prosperity of banks (Pastor, 1999; Kao et al. 2011; Scarborough 2011).Based on primary data to be gathered from risk management divisions of commercial banks operating in the nation, this study aimed to evaluate the risk management practices of commercial banks in Ethiopia. As a

result, the findings of this study can aid academics and commercial bank stakeholders in acquiring a better knowledge and comprehensive perspective of local banks' risk management systems.

This study will contribute by supplying additional empirical evidence for a more comprehensive view of the risk management practices of commercial banks in Ethiopia. The success of banking institutions is highly dependent on the effectiveness of the risk management system they developed to deal with the major risks.

In addition, this analysis will also improve public understanding of the role that risk management plays in achieving corporate goals. Moreover, this researchadds to the exiting literature and provide background information to policy makers and scholars who will need to carry out further study on the internal risk management practices of the commercial banks in Ethiopia.

1.6 Scope of the study

The main purpose of the study is to examine theassociation between risk management practice and its various aspects in commercial banks in Ethiopia. Therefore, the scope of the study will be limited on examining the risk management practice of commercial banks operating in Ethiopia and aged five years and more in since their establishment. More specifically as the study aims to assess the risk management practice of commercial banks, the focus of the study was on the risk management division of selected head office of commercial banks located in Addis Ababa city, which fulfil the above criteria.

1.7 Limitation of the study

As no research is without limitation, this study has also its own limitation. First of all, though risk management is not the solitaryduty of risk management division, due to the limitation in capacity,only direct responses from the workers of various banks' risk management departments were taken into account in this study.Further, the study deployed primary data gathered through survey questionnaire and lucks other techniques of data collection like interview. All these limitations, in turn hinders the ability of the study to be more generalizable.

1.8 Organization of the study

The study is divided into five chapters: an introduction that focuses on the background of the study, the statement of the problem, and the objectives of the study; chapter two on the literature, including theoretical and empirical literatures; chapter three on the methodology used in the study; chapter four on analysis of findings and interpretation; and chapter five, the last chapter, on a summary of the study's findings, a conclusion, and recommendations

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter presents both the theoretical and the empirical related literature review in the area of risk management practice of commercial banks. The theoretical review helps readers to have adequate insight of the concepts and theories of risk management practice of commercial banks, while the empirical literature review, are critiqued to establish the knowledge gaps.

2.1 Theoretical literature review

2.1 Definition, Functions and Roles of Banks

According to Casu, Girardon, and Molyneux (2006), a bank is a type of financial institution that primarily deals with accepting deposits and lending money to borrowers.

The primary function of a bank is to act as an intermediary between depositors and borrowers by accepting demand deposits and lending money to businesses, organizations, and individuals as needed. Comparing banking institutions to other financial institutions, they appear to be superior in a number of ways. Compared to other financial institutions, these organizations provide a larger range of services to their clients (Bhattacharya and Thakor, 1993). Unlike certain other financial institutions, such as pension funds or insurance companies, banking institutions accept deposits and lend money directly to their borrowers (Matthews and Thompson, 2008).

Banks give their clients a payment agency function in addition to intermediation services by providing further services such taking checks, issuing letters of credit, and offering other guarantees (Heffernan, 2005). All of these arguments suggest that banks support commercial activity and are crucial to a nation's economic growth. According to Molyneux and Wilson (2007), "banks are of central importance for economic growth, credit allocation, financial

stability, and the competitiveness and development manufacturing and service firms" (Molyneux and Wilson, 2007, p. 1907).

Banking is one of the most complicated industries in any economy that deals with several financial and non-financial risk variables, according to a number of studies (Wood and Kellman, 2013). According to Rahman, Abdullah, and Ahmad (2012), the nature and complexity of these risks have changed quickly over time and have grown more concerning for both banking operations and bank survival. It is essential that banking institutions are secure in addition to being effective (Pastor, 1999). As a result, a bank must be aware of the risks it is exposed to and ensure that those risks are properly handled (Al-Tamimi and AlMazrooei, 2007).

According to Abu Hussain and Al-Ajmi (2012), recognizing the various risk categories is crucial for efficient risk management in banks, and these institutions should only accept risks that are specifically related to their range of services. Therefore, all concerns related to risk management are crucial for the overall expansion of the economy as well as the banking industry (Kao et al. 2011).

2.2 Risk in Banking

Despite extensive investigation by many scholars in recent years, the term "risk" has no singular connotation in the banking industry. Different authors employ a range of methods to describe the term's scope. Risk in banking is the exposure to unforeseen outcomes that could differ from anticipated or desired returns. According to Ghosh (2012), risk in banks is the possibility of a loss brought on by unfavorable occurrences such economic downturns, unfavorable changes in trade and fiscal policy, unfavorable movements in interest rates or foreign exchange rates, or falling stock prices.Risk in banking is defined by Schroeck (2002) as unfavorable effects on returns brought on by several unique sources of uncertainty. Additionally, both have included the restriction that banking risks are dependent on actual events, primarily consisting of situations in the outside environment.

Expected losses and unforeseen losses are two categories of negative effects. Losses that can be predicted by banks with a reasonable degree of certainty of occurrence are all classified as expected losses, such as losses on loans. On the other hand, all losses that result from

unforeseen circumstances are referred to as unexpected losses. Examples include losses incurred by banks as a result of an unexpected economic downturn or losses brought on by a decrease in interest rates or foreign exchange rates. Statistically, the term risk is described asthe probability of an adverse outcome, Standard Deviation (SD) or Variance aroundthe predicted return, or as an imperfection probability; whereby a higher risk valueis reported in terms of greater deviation and higher disparity in the probability ofoccurrence (Van Horne, 2002).

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

The next section describes various types of banking risks.

2.2.1 Types of Risks in Banks

The available literature describes different types of banking risks including:

- Santomero (1997) identifies several types of risks in banks such as marketor systematic risk, legal risk and operational risk;
- Bessis (2002) points out that credit risk, interest rate risk, market risk, liquidity risk, solvency risk, operational risk, foreign exchange risk, countryrisk, settlement risk, and performance risk are the most important types ofrisks in banks;
- Crouhy, Galai and Mark (2006) formulate a different classification of risksin banks that encompasses credit risk, market risk, liquidity risk, operationalrisk, business risk, legal risk, reputation risk and strategic risk;
- Abu Hussain and Al-Ajmi (2012) claim that the importance of different types of risks in banks depends on their asset portfolios and the waydifferent types of banks conduct their business lines subject to regulatoryrequirements. Several research studies find that banks face credit risk,liquidity risk, operational risk, legal risk, regulatory risk, reputation risk, strategic risk, solvency risk, interest rate risk, rate of return risk, settlementrisk,

concentration risk, price (equity) risk, foreign-exchange risk,country(political) risk and residual risk with varying degrees of exposures (Abu Hussain and Al-Ajmi,2012).

Credit Risk*:* This risk is one of the most premier and the most important types ofbanking risk. Credit risk refers to the likelihood in which acontractual counterparty does not meet its obligations due to decline in repay abilityor unwillingness to comply with the contract (Bessis, 2002 &Schroeck, 2002). Therefore, credit risk emerges when a bank isfailed to recover the lending money from a borrower, counterparty, or an obligatory.According to Hempel and Simonson (1999), credit risk is athreatthatthebankmaynot be able to collect the principal or interest on loans and securities as promised.Generally, loans and advances are the biggest and the most obvious cause of creditrisk in the majority of banks (Dhakan, 2006). Banks eliminate the credit riskthrough effective risk management that contains a comprehensive credit riskanalysis based on scanning and monitoring of the most trustworthy loanapplications, the degree of collateral, diversification of the loan portfolio, accurateloan pricing depending upon the borrowers repay ability and intentions (Afriyie and Akotey, 2013).

Operational Risk:According to State Bank of Pakistan (2003), operational riskinvolves the direct or indirect losses suffered by a banking institution due todeficient or abortive internal processes, systems and people or from externalenvironmental factors. This description is in line with several other opinions thatthe operational risk is related to the likelihood of inverse effects on the financialperformance as well as the capital of bank that is the outcome of staff members'negligence, inadequate internal processes andinapt management informationsystems or unpredictable and undesirable external events (Santomero, 1997; Bessis2002). Unlike other types of risks like market and credit risk, operational risk primarily results from internal bank activity. However, a number of external factors, including competitor acts, natural catastrophes (such as floods and earthquakes), and terrorist attacks, which are largely unpredictable and beyond the control of banks, are sources of operational risk (Fayyaz, 2006).

By starting training and development programs for staff members (staff capacity building), investing in cutting-edge technology (system capacity building), and creating backup systems and contingency plans, banks work to control and reduce operational risk (Saunders and Cornett, 2008).

Legal and Regulatory Risk: This risk results from banks' failure to comply with regulatory obligations. Bessis (2002) characterizes it as the danger of legal conflicts arising from the various regulations that are relevant to banking transitions. This risk results from disregarding, disobeying, or violating the law, rules, protocol, and moral obligations (Fayyaz 2006). In relation to client disclosures and privacy protection concerns, for instance, Sokolov (2007) indicates that banks engaged in e-banking may be subject to legal and regulatory risk. Banks may suffer financial losses as a result of fines, payment of damages, civil money penalties, and the cancellation of contracts if they fail to provide proper privacy protection in accordance with the law.

Liquidity Risk: According to Saunders and Cornett (2008), liquidity risk is the sudden increase in depositor withdrawals that could force banks to quickly sell up their assets. This risk, according to State Bank of Pakistan (2003), is the possible loss brought on by a bank's failure to fulfill its obligations. Inadequate market depth or market disruption, along with a quick surge in the bank's depositors' abrupt demand, are some of the factors that contribute to the liquidity risk (Santomero 1997; Basel Committee, 2008). According to Crouhy, Galai, and Mark (2006), a bank may experience unforeseen cash shortages that must be filled at extravagant expenses, which would reduce profitability. They also emphasize that a bank may experience liquidity bankruptcy without experiencing capital insolvency as a result of having insufficient liquidity. As a result, banks run the risk of running out of liquidity when they can't borrow more money when they need it (Fayyaz, 2006).

On the other hand, the liquidity risk also incites severalfinancial risks such as market risk, interest rate risk, credit risk, strategic risk(Tahir,2006). For instance, liquidity risk provokes interest rate risk due to unknown ratesof future funding and investment (Fayyaz, 2006).

Market Risk: This risk is related to changes in asset value brought on by logical causes. Various sources, such as securities portfolios, instruments, and stocks, as well as interest rate or foreign exchange risk, are where the market risk in banks originates (Schroeck, 2002; State Bank of Pakistan, 2003). For instance, this risk is related to the market volatility that cause the market value of the trading portfolio to decrease during the period of the transaction's liquidation term (Bessis, 2002; Saunders and Cornett, 2008).

Foreign currency Risk: According to Tahir (2006), this risk develops when there is an irregular fluctuation in the foreign currency rate that has an adverse effect on the commitments of banks. Political stability, inflation, public debt, current account deficits, and market speculation are just a few of the variables that could cause the currency to depreciate (Ishfaq, 2006). This risk exists in any foreign exchange transaction with counterparties outside the host nation. Foreign exchange risk is defined by Saunders and Cornett (2008) as the possibility that changes in foreign exchange rates could have a negative impact on the value of assets or liabilities reported in foreign currencies.

Foreign exchange risk: According to Tahir (2006), this risk appears when there is an unpredictably fluctuating exchange rate that negatively impacts the bank commitments. A few of the factors that could lead to the currency depreciating include political stability, inflation, governmental debt, current account deficits, and market speculation (Ishfaq, 2006). Any foreign exchange transaction involving counterparties outside the host country carries this risk. According to Saunders and Cornett (2008), foreign exchange risk is the chance that changes in exchange rates could have a detrimental effect on the value of assets or liabilities stated in foreign currencies.

Interest Rate Risk: This risk increases as interest rates rise and the market value of a bank's assets, loans, or securities declines. Interest rate risk is defined by Bessis (2002) as the risk that a bank's earnings would decline as a result of changes in interest rates. According to some authors (Saunders and Cornett, 2008), banks' assets and liabilities don't match up, which causes interest rate risk.According to Saunders and Cornett (2008), this risk is closely related to market risk, and a rise in interest rates results in a decline in the market value of assets and liabilities. In order to manage the interest rate risk, banks utilize a variety of derivative approaches, such as options, swaps, futures, and forward contracts (Tahir; 2006).

Counterparty Risk is a concern when a trade transaction's counterparty might not fulfill its obligations (Fayyaz, 2006). Santomero (1997) defines counterparty risk as the risk of a trading party's non-performance. Contrary to the normal default risk of creditors, counterparty risk is a more ephemeral banking risk that is typically associated with credit derivatives in

which each counterparty is sensitive to symmetrical two-way risk exposures (Galai, and Mark, 2006).

Country (Political) Risk: This risk pertains to international trade. The risk that an obligor won't be able to fulfill its commitments due to cross-border restrictions on the availability or convertibility of an agreed currency is known as nation risk, according to Crouhy, Galai, and Mark (2006). Country risk also refers to the chance that a country would experience a crisis owing to political unrest, a downturn in the economy, or a decline in the value of the local currency relative to the bank's base currency (Bessis, 2002).

Equity or Commodity Price Risk: According to Bessis (2002), this risk develops when the market value of securities or commodities held by banks decreases. Equity or commodity price risk is defined by the State Bank of Pakistan (2003) as the loss of capital or earnings brought on by a negative change in the market value of equity-related portfolios. In banking operations, this risk might be either systematic or unpredictable. The first refers to the sensitivity of the portfolio's value based on the unique characteristics of the bank, while the latter is concerned with the price volatility of the portfolio's values owing to changes in the overall stock prices.

Reputation Risk: According to Green (1992) and Arby (2006), this risk is related to the confidence and support of bank customers and other stakeholders. Reputation risk, according to Basel Committee (2009), is the potential for losses resulting from a bad impression on the part of clients, depositors, counterparties, market analysts, investors, shareholders, regulators, and other interested parties. This risk may negatively affect banks' ability to manage current business operations or create new ones in order to retain a steady supply of capital (Ishfaq,

Technology Risk: According to Bessis (2002), technology risk in banks refers to the flaws in information systems and failures of those systems brought on by virus attacks, network outages, hacking, subpar system integration, and a lack of expertise. According to Crouhy, Galai, and Mark (2006), operational risk is primarily where technological risk belongs.

Off-balance-sheet Risk: This risk is connected to banks' financial dealings. Off-balance sheet risk, according to Saunders and Cornett (2008), is the likelihood of losses experienced by banks as a result of having contingent assets and liabilities within the banking operations. For

instance, an off-balance sheet risk is tied to a standby letter of credit guaranteed by a bank, which is a contingent liability.

Solvency Risk: A bank's capital availability and any associated risks work together to determine its solvency. Solvency risk is defined by Bessis (2002) as "the risk of being unable to absorb losses, generated by all types of risks, with the available capital" (Bessis, 2002, p. 20). It is described as the risk that a bank would not have enough capital to offset a sudden decrease in the value of its assets by Cornett and Saunders (2008). The aforementioned makes it clear that banking institutions are exposed to a number of hazards that could affect their ability to survive and thrive. Therefore, in order to handle a variety of potential risks, banks must be familiar with the idea of risk management (Stan-Maduka, 2010).

2.3 Risk Management in Banks

Risk management, according to Schmit and Roth (1990), is the execution of several operations designed to lessen the negative effects of uncertainty surrounding prospective losses. Risk management in banking organizations is described by Green (1992) as a combination of rules, procedures, and individuals used to limit possible losses. Santomero (1997) specifies four steps of risk management, including standards and reports, position limitations or rules, investment guidelines or strategies, and incentive contracts and compensations, which are all supportive of this approach.

Risk management is defined by Bessis (2002) as the entire set of risk management processes and models that enable banking organizations to implement various risk-based procedures and activities. He claims that risk management includes all the instruments and techniques required for identifying, tracking, and managing various risks.

Risk management, according to Schroeck (2002), is a dynamic, strategic, and integrated process that includes both risk measurement and risk mitigation, with the ultimate aim of boosting bank value while lowering the chance of bankruptcy.

2.3.1 Reasons for Bank Risk Management

2.3.1.1 Financial Economics Approach

The traditional Modigliani-Miller paradigm (Miller and Modigliani, 1958) that outlines the prerequisites for irrelevance serves as the foundation for the financial economics approach. Stulz was the first to offer a workable economic explanation for why managers are concerned with both expected profit and the fluctuation around their values in his 1984 study on the best hedging strategies (Santomero, 1995). Based on the criteria of irrelevance, he derives the justifications for risk management in the company. Following that, a number of alternate arguments and explanations have been produced to justify risk management. The literature on the many justifications for risk management has grown over the last few decades, with some important contributions coming from Santomero's (1995) and Smithson, Smith, and Wilford's studies.

The traditional Modigliani-Miller framework serves as the foundation for financial economics. In his study Financial Risk Management: The Whys and How's, Santomero (1995) provided a thorough review of the pertinent literature and identified several distinct reasons for risk management, including (i) securing internal financing, (ii) tax effects (the non-linearity of the tax structure), (iii) the cost of financial distress, and (iv) flaws in the capital market. Because of the firm's limited cash and the concentration of returns from human capital, the first motivation contends that managers have few options and are unable to spread out investments.This encourages resistance to risk and a focus on stability within the company. For instance, it is seen in the second reason that the controlled volatility in the declared taxable income caused by the progressive tax schedules reduces the conventional tax burden. The third and fourth reasons, however, focus on the idea that a company's fortunes are also proportionally affected by a decline in profitability. Any one of these justifications, according to Oldfield and Santomero (1997), is enough to persuade management to be concerned about risk and start a thorough evaluation of both the amount of risk associated with each financial product and viable risk mitigation strategies.

A textbook on managing financial ris/k by Smithson, Smith, and Wilford (1995) devoted an entire chapter to promoting risk management in financial institutions as a value-enhancing tactic by accepting the arguments mentioned above. All of the research previously mentioned show that the implementation of risk management in banks is justified by one or more factors, including internal financing security, tax implications, the cost of financial distress, and defects in the capital market. Therefore, maximizing business value is the ultimate purpose of risk management actions (hedging).

2.3.1.2 Institutional Theory

Institutionalization is defined as "the process through which components of formal structure become widely accepted, as both appropriate and necessary, and serve to legitimate organizations" (Tolbert and Zucker, 1983). Institutional theory incorporates a variety of areas (Collier and Woods, 2011). However, a number of research projects (Hudin and Hamid, 2014) have a stronger connection to organizational and business studies. The rules and regulations that are imposed on institutions by outside parties, particularly by government regulatory bodies, as well as all the norms and values that are ingrained in roles through the use of socialization processes or procedures, are the main topics of institutional theory (Powell and DiMaggio 1991). The institutional theory has been used in several research to explain the implementation of risk management (Hudin and Hamid, 2014).

They contend that institutionalization takes hold when risk management practices become largely homogenous across institutions. By applying pressure to enterprises in the form of persuasion, guidance, or invitation, political, legitimate, or regulatory pressures can be used to achieve this uniformity (Hudin and Hamid, 2014). For instance, the central bank of Pakistan has instructed all banks to create an active framework for risk management. Given the homogeneity assumption of institutional theory, all banking institutions, regardless of their sizes and complexity, adhere to the fundamental principles of risk management. Because of this, the current theory offers a critical perspective on a viable justification for risk management in banks.

2.3.1.3 Agency Theory

Agency theory has been employed by numerous researchers in their work to give a theoretical framework for risk management (Fatemi and Luft, 2002). This theory aids in investigating a social phenomenon from the standpoint of the principal-agent (investor-manager). According to Jensen and Meckling (1976), an agency relationship is a legal arrangement whereby one or more people (the principals) hire another person (the agent) to carry out a task on their behalf while also giving the agent some discretion over how to proceed.

Two key presumptions underlie this approach (Jensen and Meckling 1976). First and foremost, both the principal and the agent work to further their own interests. Second, it's possible that the agent's interests do not align with the principals, and as a result, the agent is unlikely to act in the principal's best interests.Hence, a conflict of interestsmay emerge between principal and agent.

Agency issues have been applied to corporate risk management by Smith and Stulz (1985), who also describe the managers' (agents') attitudes toward taking risks and hedging. Following that, Fite and Pfleiderer (1995) utilized agency theory as well and discussed the impact of hedging practices on company value. On the basis of agency theory, Tufano (1998) has also established a case for risk management. He contends that management prioritize hedging as much as they can without taking their shareholders' interests into account. The reason for this behavior is that management and shareholders have different levels of risk aversion.

2.3.1.4 Stakeholder Theory

According to the stakeholder theory (Freeman, 1984), the symmetry of stakeholders' interests is what most heavily influences company policy. The expansion of implicit contracts theory from employment to other contracts is the most significant contribution to risk management (Klimczak, 2007). Customer trust in businesses is crucial for them to continue providing their services in the future and can significantly increase the value of some organizations, particularly those in the services and high-tech sectors. The value of these implied claims, however, is highly dependent on the expected costs of bankruptcy and financial difficulty.

Since a company's risk management procedures lead to a decrease in these anticipated costs, their value rises (Klimczak, 2007).

The aforementioned discussion therefore suggests that risk management can be observed in banking institutions to: satisfy the regularity requirements; align the interests of managers with those of their shareholders; reduce expected tax payments of the bank; lower the probability of financial distress, business failures, or bankruptcy; safeguard specific investments of the organization; and assist the banking business organization in developing financial plans and investment a The aforementioned arguments also make it clear that risk management is helpful within a bank to regulate various risks and to reduce the potential negative effects of these exposures. Hudin and Hamid (2014), on the other hand, argue that adopting a single theory is insufficient to explain the rationale of risk management. As a result, this study uses two theoretical perspectives to characterize the implementation of risk management methods in Pakistani banks: institutional theory and the financial economic approach.

Aside from the theoretical concerns for implementation risk management described above, numerous international initiatives have been made to strengthen banks' risk management mechanisms (Basel Committee, 2013). The next section provides a quick overview of these activities.

2.3.2 Risk Management and Basel Accords

once the failure of Bankhaus Herstatt in West Germany, the central bank governors of the G10 countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States) formed the Committee on Banking Regulations and Supervisory Practices (BCBS) to improve the flexibility of banks against the financial crisis in the global banking system.

The Basel Committee established the Basel Accords (Basel I, Basel II, and Basel III), an internationally acknowledged set of guidelines for dealing with diverse risks. The Basel Accords were initially intended primarily for the G10 countries. However, these principles have been designed in such a way that they may be relevant in both developed and poor countries (Al-Tamimi, 2008). Banks are expected to maintain a certain level of capital against

operational and other financial risks under these principles. According to Van Rixtel, Alexopoulou, and Harada (2004), the implementation of the Basel Accords may have a favorable impact on risk management and strengthen financial stability by providing risk-sensitive approaches. According to Masood and Fry (2012), the proper implementation of the Basel Accord is surely a critical aspect for banking institutions and intends to help them survive and grow in the new dangerous environment. Similarly, supervisory agencies appear to anticipate that greater capital requirements will have a positive impact on bank risk-taking behavior (Pasiouras, 2008b).

Al-Tamimi (2008) performed study to examine the relationship between the eagerness for Basel II implementation and the resources needed for its endeavor in the UAE. He believes that it is critical for UAE banks to take the necessary steps to adopt the Basel Accord in order to ensure compliance with international standards and improve risk management techniques in the banking industry. He performed a survey study for this aim, which found that UAE banks are aware of the benefits, effects, and obstacles associated with the implementation of the Basel Accord. He came to the conclusion that UAE banks are well-prepared to adopt the Basel II standards.

This decision demonstrates that UAE banks have the resources to implement Basel II. However, the findings of his analysis revealed no significant association between the eagerness of UAE banks to apply Basel principles and the cost of implementation. Al-Tamimi (2008) discovered no difference in preparation for Basel II implementation between UAE national and foreign banks. As a result, these findings suggest that national banks outperform foreign banks. His research also backs up Rime's (2001) claim that maintaining the required capital level protects banks from various risk exposures such as credit, market, and operational risks.

Cai and Wheale (2007) investigated the effects of the Basel Accords on the Chinese banking industry. They have demonstrated that the new Basel Accord II is beneficial in terms of risk management and minimizing instability. It has also been established that the deployment of advanced risk management systems under the new Basel Accord can benefit both major and small banks in China. Lee and Chih (2013b) investigated the impact of financial regulation on the profit efficiency and hazards of Chinese banks in a later study. The empirical findings of

their study revealed that the regulatory requirements for cost-to-income ratio and provision coverage ratio, loan-to-deposit ratio, leverage ratio, capital adequacy ratio, and current ratio differ between large and small banks in China.

Similarly, Hakenes and Schnabel (2011) highlighted that Basel II gave major banks a competitive edge in the selection of numerous techniques to improve their capital needs, resulting in fiercer competition and forcing smaller banks to confront larger risks.

Bunea-Bontas, Lazarica, and Petre (2009) investigated the linkages between capital adequacy and risk management, as well as their impact on the financial system's stability in Romania. They stated that the primary goals of a prudent internal capital adequacy assessment process included: the identification and measurement of credit, market, and operational risks; the establishment and assessment of internal capital adequacy goals directly related to these risks; and ensuring the reliability of internal capital adequacy appraisals. They believe that achieving all of the aforementioned objectives will significantly improve risk management at both the individual company and the consolidated levels. They concluded that Basel II represented a genuine revolution in that it established uniform standards for capital adequacy as well as codes of best risk management practices globally in order to improve the integrity and stability of the financial system and ensure global banking health.

Barth, Caprio, and Levine (2013) investigated the links between various banking rules and supervisory procedures, as well as their impact on bank development, performance, and stability. They discovered that the harshness of capital rules is positively associated to bank development. They discovered that strict capital regulations are not closely associated with bank development and stability while controlling the regulatory and supervision features of other banks. They also discovered a negative relationship between capital restrictions and nonperforming loans.They have advised that capital rules be prioritized in nations with insufficient deposit insurance, ineffective government supervisory agencies, or insufficient regulations governing bank supervision in the private sector.

The SBP has also set specific rules and regulations for the execution of a risk management framework and the maintenance of minimum capital requirements under the Basel Accords for Pakistani banks (Tahir, 2006; Masood and Fry, 2012).

2.4 Empirical literature review

Mwangi & Kwasira, March (2016) studied on the Influence of Risk Management Practices on Successful Implementation of Projects in Public Secondary Schools in the County Government of Kiambu, Kenya. The result revealed that, risk identification, risk analysis, risk treatment, and risk control have a significant and positive relationship with successful implementation of project. Risk treatment had the strongest influence on project implementation success followed by risk analysis.

Al-Tamimi & Al-Mazrooei(2007) conducted a study on Banks' risk management: a comparison study of UAE national and foreign banks. The result attested that the important types of risk facing the UAE commercial banks are foreign exchange risk, followed by credit risk, then operating risk. Furthermore, the study revealed as UAE banks are to some extent competent enough in managing risk. Similarly result showed, risk identification and risk assessment analysis are the significant factors in risk management practices in UAE banks. The activities of risk measurement, risk monitoring and controlling showed significant gap between the domestic and abroad banks in UAE.

Aljughaiman & Salama (2019) assessed the role of risk governance in the MENA region. The result showed that banks which have adopted good risk governance showed less of in general risk taking prior to and post the financial crisis period for Convectional Banks. However, higher overall risk- taking activities before the crisis but is constant with the results of the Convectional Banks (negative association) during the period after the financial crisis in Islamic Banks.

Pasha & Negese (2014) studied Risk Assessment and Handling in Ethiopian Banking. The finding of the study revealed that, there is approximately similar extent of credit risk exposure between state owned and private banks for all attributes of credit risks, operating efficiency is good in public sector than private sector, however, in private banks risk management environment is better than state owned banks.

Tafri, Rahman, & Omar(2011) empirically investigated the risk management tools practiced in Islamic and conventional banks in Malaysia. The study finding revealed that,there are significant differences in the level of extensiveness of the usage of market value at risk, usage of stress testing results, the usage of credit risk mitigation methods and also the level of

extensiveness of the usage of operational risk management tools between Islamic and conventional banks in Malaysia.

Rosman(2009) examined the Risk Management Practices and Risk Management Processes of Islamic Banks. The study finding identified, four important requirements to realize risk management which it includes understanding risk and risk management; risk detection; risk analysis and assessment; and risk monitoring and draw a positive relationship with risk management practices.

Nazir et al, (2012) assessed the Risk Management Practices through comparison of conventional and Islamic Banks in Pakistan. based on the study finding it was concluded that there is significant and linear relationship between the Risk management practices with all the variables such as understanding risk and risk management, risk discovery, risk review analysis, risk supervise and credit risk analysis, but this study ignores operational risk, market and liquidity risk.

TBilal, Talib, and Khan (2013) investigated the risk management methods of banks in emerging economies. They gathered primary data through questionnaires and personal interviews. The acquired data was subjected to descriptive statistics and regression analysis. Their study results indicated favorable significant correlations between risk management practices and risk identification, risk assessment and analysis, risk monitoring, and credit risk management in the selected banks.

Selma, Abdelghani, and Rajhi (2013) investigated the risk management methods and techniques used by Tunisian banks. According to the findings of their investigation, Tunisian bankers were highly aware of the importance and role of active risk management. They also stated that the selected banks have established a variety of effective risk management frameworks and risk strategies in Tunisia. T

Shafique, Hussain, and Hassan (2013) conducted a comparative study in

Pakistan to investigate the variations in risk management strategies between Islamic and conventional financial institutions. Credit risk, liquidity risk, operational risk, equity investment risk, market risk, and rate of return risk were recognized as the most critical risks in the selected Pakistani financial institutions by their research.

Wood and Kellman (2013) conducted a study of six Barbadian banks' risk management procedures. As a result, their findings revealed that the primary forms of risks in the selected Barbadian banks were credit risk, operational risk, nation risk, interest rate risk, and market risk. They determined that the selected banks' risk management methods were effective in light of the changing business climate.

Ishtiaq (2015) investigated the efficiency of risk management strategies and their link to bank performance. The study finding confirmed that Risk Understanding, Risk Identification, Risk Assessment and Analysis, Risk Monitoring and Controlling Risk Monitoring and Controlling, Managing Credit Risk, Managing Market Risk, Managing Liquidity Risk and Managing Operational Risk have substantial effect on the practice of Risk.

Zeleke & Sindhu (2021) conducted an Empirical study on Ethiopian Commercial Banks risk management practice. The result indicated that risk identification and managing credit risk are efficient in Ethiopian commercial banks. Besides, regression result revealed that risk understanding, risk assessment and analysis; risk monitoring and controlling has significant association with risk management Practice in Ethiopian Commercial banks. Similarly, managing Credit risk, managing market risk, managing liquidity risk and managing operational risk are significantly associated with risk management practices in Ethiopian banks.

Wood and McConney (2018) examined The Impact of Risk Management on the Financial Performance of the Commercial Banking Sector in Barbados. The empirical results indicate that Capital Risk, Credit Risk, Liquidity Risk, Interest Rate Risk and Operational Risk have statistically significant impacts on financial performance. The only risk variable which does not derive this result is Country Risk. In addition, of those variables which proxy external factors, only GDP Growth has a statistically insignificant influence on financial performance.

2.5 Research Gap

A survey of the literature reveals that risk management is critical to the success and continuity of banks. As a result, a lot of research projects have been conducted in attempt to explain risk

management in banks. The examination of the preceding literature research reveals that the bulk of these investigations were conducted in Asian nations.

Furthermore, the scant literatures on risk management techniques of Ethiopian banks have severe limitations. To begin, the majority of these research have concentrated on four common aspects: risk comprehension, risk identification, risk assessment and analysis, and risk monitoring and control. Second, the few accessible research in the Ethiopian setting have relied solely on secondary data. Furthermore, the majority of the assessed literatures examined the impact of risk management methods on bank performance.

As a result, an apparent potential research vacuum exists in the local environment to investigate a larger view of the phenomenon by soliciting direct replies from managers and specialists in Ethiopian banks' risk management divisions. Furthermore, the majority of the assessed literatures examined the impact of risk management methods on bank performance. As a result, the purpose of this study is to provide new insights into the relationship between risk management practices and their components in Ethiopian commercial banks by collecting primary data from managers and specialists in risk management divisions of selected Ethiopian commercial banks.

2.6 Research hypothesis

Based on the both theoretical and empirical reviews conducted in this study, eight research hypotheses were developed for this particular study as follows;

RH1: Risk understanding aspect of risk management has statistically significant effect on the overall risk management practices of commercial banks in Ethiopia.

RH2: Risk identification has statistically significant effect on the overall risk management practices of commercial banks in Ethiopia.

RH3: Risk assessment and analysis aspect of risk management practice has statistically significant effect on the overall risk management practices of commercial banks in Ethiopia.

RH4: Risk monitoring and controlling aspect of risk management practice has statistically significant effect on the overall risk management practices of commercial banks in Ethiopia.

RH5: Credit risk management aspect of risk management practice has statistically significant effect on the overall risk management practices of commercial banks in Ethiopia.

RH6: Market risk management aspect of risk management practice has statistically significant effect on the overall risk management practices of commercial banks in Ethiopia.

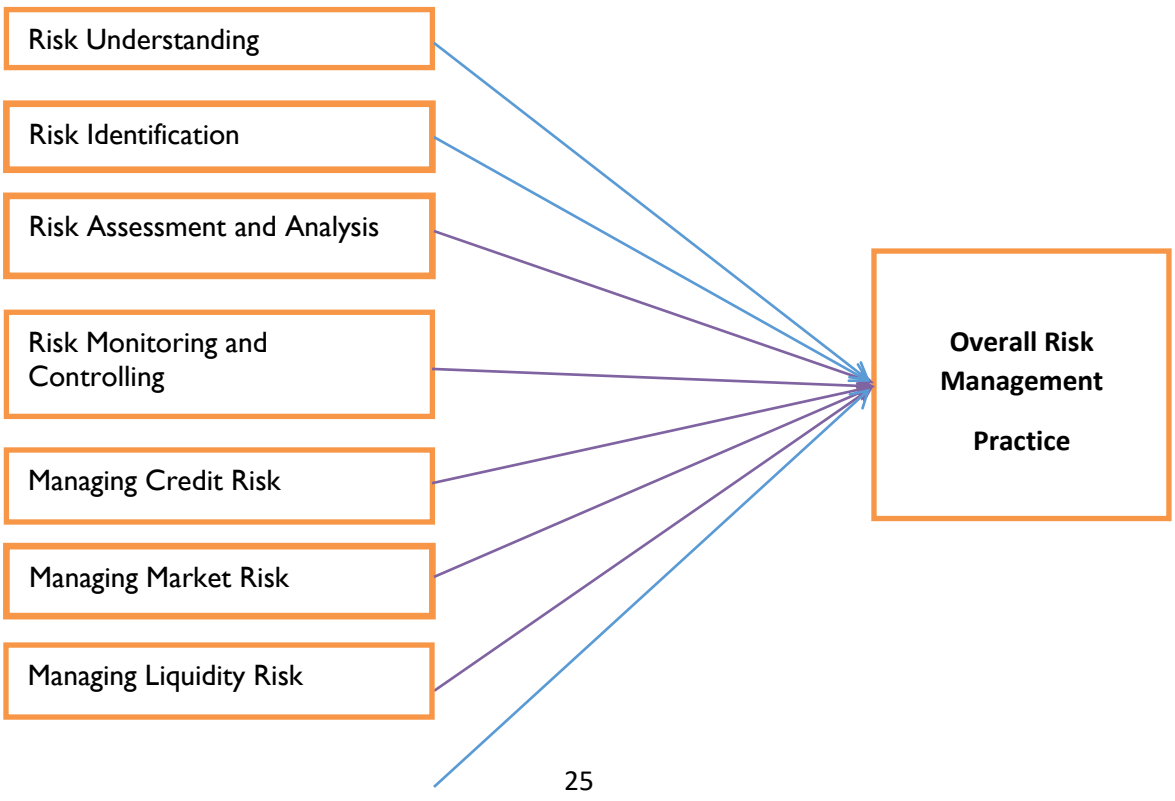
RH7: Liquidity risk management aspect of risk management practice has statistically significant effect on the overall risk management practices of commercial banks in Ethiopia.

RH8: Operational risk management aspect of risk management practice has statistically significant effect on the overall risk management practices of commercial banks in Ethiopia.

2.7 Conceptual Framework

The conceptual framework helps readers understand the relationship between variables easily. Therefore, the conceptual framework for this particular study is prepared based on the reviewed literatures in the related area i.e., in relation with risk management practice of commercial banks.

Figure 2.1 Conceptual Framework of the study



Managing Operational Risk

Source: Adopted from the reviewed literatures

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter of the study presents the research approach and research design to be deployed, the data source and data type as well as the instrument of data collection to be used. Moreover, the target population, the sampling method and the data analysis techniques to be employed are also to be presented in chapter of the study.

3.1. Research Approach

As the research approach to be deployed in a study is to be determined by the nature of the data to be employed. In this study, in order to achieve the research objective both quantitative and qualitative data will be employed. Accordingly, the study adopted a mix of both quantitative and qualitative research approaches

3.2. Research Design

The goal of this study is to examine the effect of the practice of the management of the various bank specific risks on the overall risk management practice in Ethiopian commercial banks, including risk understanding, risk identification, risk measurement and analysis, risk monitoring and control, managing credit risk, managing market risk, managing liquidity risk,

and managing operational risk. Furthermore, the study will look at the impact of various risk management components on commercial banks' overall risk management practices.

A research design to be employed in a given study is determined by the purpose of that particular study. Accordingly, in order to meet the research objective of the study, the study deployedbothdescriptive and explanatory research designs. Therisk management of the commercial banks were analyzed using descriptive research design while, the effect of the various components of risk management on the overall risk management practice of the banks is to be analyzed through regression analysis.

3.3. Study Population and target population

3.3.1 Population of the Study

The study's population is defined as "the universe of units from which a sample is to be selected" (Bryman and Bell, 2011). For this study intends to assess the risk management practice of commercial banks in Ethiopia, the study population of the study were registered commercial (both states owned and private owned) banks in the country, joined the industry before five years.

3.3.2 Target Population of the Study

As this study sought toexamine the effect of the practice of the management of the various bank specific risks on the overall risk management practice in Ethiopian commercial banks, the target population of the study were managers and expertise of risk management division at the headquarters and branch banks of the commercial banks.

3.4 Sampling procedure and sample size determination

When conducting an investigation on the inter target population is found to be uneconomical from financial and time aspects of constraints, it will be necessary to take a portion of a population and a sample is a subset of a population chosen for research purposes. In the selection process of a representative sample from the total population, two methods area available; namely probability sampling and non-probability sampling.When probability

sampling is in use, each unit was drawn at random from the population and has an equal chance of being chosen as a subject or representative sample, but when we consider non-probability sampling, some units have a greater chance of being picked as a subject than others. In the later the researcher will have some space to select more relevant units from the population based on expertise judgment.

For this study the sampling procedure was follow two stage sampling process. In the first stage, sample commercial banks were selected using non-probability sampling technique called judgment/purposive sampling technique and in the second stage, sample respondents were selected from each sampled commercial banks using judgment/purposive sampling technique.

Accordingly in the first stage representative commercial banks were selected based on the judgment of the researcher. The criteria for the selection of sample commercial banks from the entire commercial banks which are currently operating in the country will be their duration of the commercial banks in the industry. Accordingly, those banks which have at least five years of duration in operating in the banking industry will be selected as a representative sample for the commercial banks which are currently functional in the industry. The rational to incorporate only commercial banks in the sample is that commercial banks with at least five years of duration are believed more adequate experience in the risk management practice whereby are more relevant in providing the required information for the success and accuracy of the study. Currently there are about 25 operating commercial banks in the country, out of it 17 banks are with the duration of at least five years of operating in the banking industry. Therefore, all these 17 commercial banks will be taken as sample commercial banks in this study.

Table 3.1: List of selected banks for the study

Sr.no	Name of the selected Commercial Banks
1	Commercial Bank of Ethiopia
2	Awash International Bank
3	Dashen Bank
4	Wegagen Bank

5	Bank of Abyssinia
6	United Bank
7	Nib International Bank
8	Bunna International Bank
9	Anbesa International Bank
10	Addis International Bank
11	Berhan International Bank
12	Oromia International Bank
13	Cooperative Bank of Oromia
14	Abay Bank
15	Debub Global Bank
16	Enate Bank
17	Zemen Bank

The second stage of the sampling process focuses in the selection of sample respondents from the 17 sampled commercial Banks.In this regard, ten respondents from the credit risk management divisions of all the sampled commercial banks including heads of the divisions, 170 respondents in sum were selected for this study using purposive sampling technique. The rational for deploying purposive sampling technique was to select the most appropriate respondents for the specific area of study which is bank specific risk management. Accordingly, a fair mix of respondents from various position at risk management divisions of sampled banks were included in the study bases on the researcher's judgment. Therefore, Internal auditors, Credit risk analysts, Credit risk internal controllers, Credit risk examiner and hears of credit risk divisions were incorporated in the sample.

3.5 Data type and Source

The study will deploy a cross-sectional data type, which is a data to be collected on different variables a time. The data is to be collected from the sample respondents from 17 selected commercial banks currently operating in the country for at least for the last five years. Therefore, the study was deployed a firsthand data sourced from primary sources.

3.6. Instrument of Data Collection

In order to come up with a valid study finding it is necessary to have adequate and appropriate data obtained from the right source. This in turn requires using appropriate instrument of data collection.As a result, the survey questionnaire technique was used in this work to obtain the necessary data for quantitative analysis. In this sense, the necessary data for this investigation was gathered via a survey questionnaire. In business and management research, the questionnaire is a very valuable and widely acknowledged approach for collecting exact data from a broad population in a cost-effective manner (Lewis and Thornhill, 2012).

3.7. Data Analysis technique

The quantitative data in this research study shall be organized, processed and analyzed both in descriptive statistics in the form of percentages, tables, ratios and charts. Moreover, correlation and regression analysis were done to examine the relationship between the variables and effect of the various risk management practices on the general risk management practice of the commercial banks in Ethiopia. The data was analyzed using SPSS version 24.

Here risk management practice can be considered as a function of risk understanding, risk identification, risk assessment and analysis, risk monitoring and controlling, managing credit risk, managing market risk, managing liquidity riskand managing operational risk. Accordingly, the model specification for this particular study can be formulated as follows;

RMP = *f* (RU, RI, RAA, RMC, MCR, MMR, MLR, MOR)

Theeconometric model for this functional relationship can also be formulated as;

$$RMP = \beta_0 + \beta_1 \text{RU} + \beta_2 \text{RI} + \beta_3 \text{RAA} + \beta_4 \text{RMC} + \beta_5 \text{MCR} + \beta_6 \text{MMR} + \beta_7 \text{MLR} + \beta_8 \text{MOR} + \varepsilon_i$$

Where, β_0= the interest or the constantan term

β_1……...β_8= the elasticity coefficients

RMP= Risk Management Practice

RU= Risk Understanding

RI= Risk Identification

RAA= Risk Assessment and Analysis

RMC= Risk Monitoring and Controlling

MCR= Managing Credit Risk

MMR= Managing Market Risk

MLR= Managing Liquidity Risk

MOR= Managing Operational Risk

ε_i = The error terms

3.8. Validity & Reliability of Data

The significance of the research's component parts is what validity is concerned with. Whether the measurement being done is what is truly intended or the extent to which results gained from the analysis of the data actually represent the phenomenon under study must be taken into account while conducting research on behavior. The questionnaire was also created by looking at related studies done by other researchers in related fields. In addition, bank specific professionals within the banking sector assessed and provided input on the questionnaires. To make sure that the respondents could comprehend each item with ease, simple English was employed, and considerable care was taken to make the contents crystal plain and eliminate ambiguity.

Each contract of the various aspects of bank specific risk management practice as independent variable and the overall bank specific risk management practice were subjected to a reliability examination. By calculating the Cronbach's alpha coefficient, the validity of the measurements was evaluated. According to Hair et al. (1998), a construct's Cronbach's alpha coefficient should be 0.7 or higher in order for it to be scale-acceptable. The value of 0.7 or above indicates that the items in each domain are generally comprehended and considered acceptable by the respondents. On the other hand, if the results are less than the 0.7 predicted value, this may be due to respondents' varied perceptions of the various domain items.

Therefore, the most widely used reliability test method, called Cronbach's Alpha coefficient, was utilized in this study to ensure the accuracy and reliability of the study findings. Because the values of alpha coefficient for all factors were over the cutoff point criteria (>or=.70), the reliability test result for the data used in this study verified that the internal consistency or reliability of the data was high and could be acceptable. As a result, the data used is trustworthy enough to produce reliable results.

Table 3.2 Reliability Test Result

Factors	Cranach's Alpha	No of Items
Understanding Credit Risk	.859	4
Risk Identification	.813	6
Risk Assessment and Analysis	.878	11
Risk Monitoring and Controlling	.815	9
Managing Credit Risk	.790	5
Managing Market Risk	.724	5
Managing Liquidity Risk	.804	5
Managing Operational Risk	782	5
Risk Management practice	.843	10

Source: own survey, 2022

3.9. Ethical Considerations

All stakeholders involved in research must take ethical behavior very seriously. Ethics are rules or standards of conduct that help people make moral decisions about their behavior and interactions with others. The intention is to prevent any injury or negative effects from the study operations. After receiving approval from the responsible department for this study and after submitting a formal letter from the academic faculty outlining the study's objectives to the organization section, the researcher will begin work on the project. The researcher will inform the respondents when delivering the questionnaires that they are only required to fill it out voluntarily and are not required to write their names or any other identifying information. Everyone involved in research must take ethical behavior very seriously. The information

acquired will only be utilized for this academic study, and all responder data and identities will be kept private.

CHAPTER FOUR

Finding and discussions

4.1 Introduction

This chapter of the study present the study findings, interpretation of the results as well as the discussions made over the findings. Accordingly, the first section of the chapter presents the demographic characteristics of the respondents while the second section of the chapter presents the finding and discussion of the descriptive statistics analysis. Finally, the third section deals with the presentation of the result and discussion of the inferential statistics analysis.

4.2. Questionnaire Response Rate

Out of the total of 170distributed questionnaires,166 questionnaires were collected back properly filed. So, the questionnaire return rate was registered to be 97.7 percent,at testing the adequacy of the response towards coming up with reliable output.

4.3 Demographic Characteristics of Respondents

Researchers can better comprehend the differences in the important demographic characteristics among respondents by analyzing the respondents' demographic data. As a result, this part aimed to show the respondents' demographic information, including their sex, age, level of education, and employment status.

4.3.1 Sex of Respondents

The finding regarding the sex distribution of the respondents indicates that out of the total 166 respondents, male respondents stood at 67.7 percent share, while female respondents took only 34.3 percent share. is only about 28 percent of the total sample respondents. This confirms that the majority of the employees in the banking sector are male, reflecting the low participation of females in the labor market, which is the realty in the developing economy like Ethiopia.

Table 4.1 Sex of the respondents

	Frequency	Percent
Male	109	65.7
Female	57	34.3
Total	166	100.

Source: own survey, 2022

4.3.2 Age of the Respondents

Concerning the age of the respondents, as revealed in the table 4.2 below, the larger proportion of the respondents, about 36.7 percent, fall in the age group between 31-40 years, followed by those in the age group between 41 and 50 years, with 31.3 percent share. About 30.7 percent of the respondents are in the age group 18-30 years, while only 1.2 percent of the respondents fall in the age group above 50 years. It can be judged that the majority of theemployees in the banking sector are below 40 years,which is a productive age.

Table 4.2 Ages of the Respondents

	Frequency	Percent
18-30	51	30.7
31-40	61	36.7
41-50	52	31.3
above 50	2	1.2
Total	166	100

Source: own survey, 2022

4.3.3 Educational Background of the Respondents

The data on the educational background of respondents help researchers evaluate the respondents in terms of understanding the questions they are responding as well as their understanding of the basic issue of the study. Accordingly, the study finding concerning the educational background of the respondents, shows thatabout 67.5 percent of the respondents were first degree, whereas the remaining 32.5percent of them were second degree holders. This indicates that employees in the banking sectors are well educated and eligible to respond to the constructs in the questionnaires of the current study.

Table 4.3 Educational Background of the respondents

	Frequency	Percent
First Degree	112	67.5
Second Degree and above	54	32.5
Total	166	100

Source: own survey, 2022

4.3.4Work Experience of the Respondents

As depicted in the table 4.4 below, 34.9 percent of the respondents are with work experience of 2-55 years, while 28.3 of the respondents have work experience of 6-10 years. Those with work experience of above 10 years' accounts for 19.3 percent of the total respondents while, 17.5 percent of the respondents have less than 2 years of work experience. The result revealed that majority of the respondents are with adequate work experience and are believed to have good understanding of the bank specific risk management practice to forwarded their valid response on the various constructs of the questionnaire.

Table 4.4Work Experience of the respondents

	Frequency	Percent
less than 2 years	29	17.5
2-5 years	58	34.9
6-10 years	47	28.3
above 10 years	32	19.3
Total	166	100

Source: own survey, 2022

4.3.5Work Position of the Respondents

The result regarding the work position of the respondents revealed that, 18.7 percent of the respondents are at internal auditors at credit risk management position, 25.9 percent are at the Credit risk analyst at credit risk management unit position, 19.9 percent are at Credit risk internal controller at credit risk management position, 26.5 percent are at Credit risk examiner position and the remaining 9 percent of the respondents are at head credit risk division position. Such mix of respondent from various work position help the researcher capture well balanced perception on the various constructs in the questionnaire.

Table 4.5Work Position of the respondents

	Frequency	Percent
Internal auditors at credit risk management	31	18.7
Credit risk analyst at credit risk management unit	43	25.9
Credit risk internal controller at credit risk management	33	19.9
Credit risk examiner	44	26.5
Head credit risk division	15	9.0
Total	166	100

Source: own survey, 2022

4.4. Descriptive Statistics Analysis

In order to understand the respondents' perception of the various constructs of bank specific risk management practice and its components, different statements were presented under each construct of the survey questionnaire. As a result, the five Likert scale of evaluation was used to each statement under each construct. Each statement included in a variable's Likert five-point scale is rated from 1 to 5, where 1 denotes the respondent's assessment of the statement as being very disagreeable, 2 is disagreeable, 3 is neutral, 4 is agreeable, and 5 is extremely agreeable. The employees' perception of a variable will be determined by taking the mean value of the respondents' ratings for each statement under that variable. As a result, the mean value for each variable might be interpreted as follows: 1.00-1.80 = extremely disagree, 1.80-2.60 = disagree, 2.60-3.40 = neutral, 3.40-4.20 = agree, and 4.20-500 = highly agree.

4.4.1 Risk Understanding

Under this section respondent were asked to rate the four statements of risk understanding based on the Likert five scale of measurement. Accordingly, the overall aggregate mean response of the respondents was rated as good with the mean score value of 3.47. The mean value of the standard deviation indicates that the is little variation among respondents regarding the various statements of risk understanding. The overall man score value of all the four items is above the midpoint the Likert's scale, affirming that staffs of the risk management division of commercial banks have good risk understanding. The mean response of all the four statements ranged between 3.39 and 3.53. The highest mean scored value (3.53)

was obtained by item one, confirming that there is relatively a common understanding of risk management across the bank. Whereas, the lowest mean value was obtained by item for with as compared with the 3.39 mean score, indicating the relative low understanding of the accountability for risk management across commercial banks.

Table 4.6 Respondents' Perception on Risk Understanding

Items	N	Mean	SD
There is a common understanding of risk management across the bank	166	3.53	1.153
There is a proper system for understanding various risks implemented in the bank	166	3.48	1.287
Responsibility for risk management is clearly set out and understood throughout the bank	166	3.48	1.189
Accountability for risk management is clearly set out and understood through the bank	166	3.39	1.215
Mean Value		3.47	1.21

Source: own survey, 2022

4.4.2 Risk Identification

The level of risk identification across commercial banks were rated by the sampled respondents based on six statements. Hence, the result of the mean analysis of therespondents' perception revealed that, in overall the with the mean score value of all the six items under this contract 3.64, revealed that there is a good risk identification among the staffs of commercial banks. The overall standard deviation value also indicates the low variation in the perception of respondents on the various items of risk identification. In the other hand, ranging from 3.46 to 3.83, the mean score value of each items shows a little variation. As perceived by the sample respondents, with the highest men score value (3.83), commercial banks were rated as good in awareness of the strengths and weaknesses of the risk management systems of other banks, while relatively rated as weak incarrying out a compressive and systematic identification of its risks relating to each of its declared aims and objectives with the mean score value of 3.46. In overall, the result confirms that there is good risk identification status across commercial banks in the country.

Table 4.7 Respondents' Perception on Risk Identification

Items	N	Mean	SD
The bank carries out a compressive and systematic identification of its risks relating to each of its declared aims and objectives	166	3.46	1.13
The bank finds it difficult to prioritize its main credit risks	166	3.47	1.14
Changes in risks are recognized and identified with the bank's roles and responsibilities	166	3.79	.99
The bank is aware of the strengths and weaknesses of the risk management systems of other banks	166	3.83	.95
The bank has developed and applied procedures for the systematic identification of opportunities	166	3.75	1.01
It is crucial for bank to apply the most sophisticated techniques for risk identification	166	3.54	1.17
Mean Value		3.64	1.07

Source: own survey, 2022

4.4.3 Risk Assessment and Analysis

Here respondents were asked to present their perception of the risk assessment and analysis status of commercial banks based on elven statements incorporated in the survey questionnaire. Accordingly, with the overall aggregated mean score value of all the statements 3.76, the risk assessment and analysis status of commercial banks was judged as good as perceived by the sample respondents. The overall standard deviation for all the statements under this construct affirms the little variation in the perception of the sampled respondents regarding the various statements of risk assessment and analysis. However, little variation was observed in the mean score value of the individual statements of the construct, which ranged from 3.22 to 4.12. Accordingly, with the highest mean score value of 4.12, it is indicated that commercial banks are good in assessing risks using quantitative analysis methods. To the contrast, with the mean score value of 3.22, commercial banks were found to have relatively low rate in terms of responding to analyzed risks through prioritizing of risks and selecting those that need active management. In overall, the result attested that the sampled commercial banks are good in risk assessment and analysis.

Table 4.8 Respondents' Perception on RiskAssessment and Analysis

	N	Mean	SD
This bank assesses the likelihood of occurring risks	166	3.66	1.17
This bank's risks are assessed by using quantitative analysis methods	166	4.12	.95
This bank's risks are assessed by using qualitative analysis methods	166	3.92	1.08
The bank analyses and evaluates opportunities it has to achieve objectives	166	3.66	1.16
The bank's response to analyzed risks includes an assessment of the costs and benefits of addressing risks	166	3.80	1.02
The bank's response to analyzed risks includes prioritizing of risks and selecting those that need active management	166	3.22	1.09
The bank's response to analyzed risks includes prioritizing risk treatments where there are resource constraints on risk treatment implementation	166	3.46	1.25
The bank undertakes a credit worthiness analysis before granting credit or executing transactions	166	3.91	.91
Before granting capital or credit, my bank undertakes specific analysis including the applicant's character, capacity, collateral and conditions	166	3.73	1.10
The bank has a computer-based support system to estimate the earnings and risk management variability	166	3.80	1.20
The bank relies on the output of quantitative data with human judgment	166	4.07	.93
Mean Value		3.76	1.08

Source: own survey, 2022

4.4.4 Risk **Monitoring and Controlling**

The risk monitoring and controlling dimension of risk management component was measured based on nine statements included in the survey questionnaire. Thus,the risk management monitoring and controlling status of selected commercial banks was rated by respondents as good with overall mean score value of all the statements 3.82. This finding reveals that commercial banks have good status in risk monitoring and controlling, as the overall mean score is exceeding the midpoint of the Likert's five scale measurement. The standard deviation value also shows that the variation in the perception of the respondents on the various statements of risk monitoring and controlling is low. The mean score value of each of the nine statements under this construct ranges from 3.58 to 3.98, indicating small variation.

With the highest mean score value of 3.98, the sixth items among the nine statements, confirms that selected commercial banks are good in responding to risk includes action plans in implementation decisions about identified credit risk, while they are rated as relatively poor in the appropriateness of their level of control for the risks that they face, with mean score value of 3.58. Generally, the result indicates that the selected commercial banks are good in risk monitoring and controlling as judged by the overall perception of the sampled respondents.

Table 4.9 Respondents' Perception on Risk Monitoring and Controlling

Items	N	Mean	SD
Monitoring the effectiveness of risk management is an integral part of routine management reporting	166	3.73	.902
The level of control by the bank is appropriate for the risks that it faces	166	3.85	1.08
The bank has adopted a standard reporting system about the risk management from bottom to top management	166	3.58	1.24
Reporting and communication processes within the bank support the effective management of risk	166	3.73	1.31
The bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses	166	3.96	1.06
The bank's response to risk includes action plans in implementation decisions about identified credit risk	166	3.98	.91
The bank effectively monitors the credit limit of everyone counterparty	166	3.84	1.07
The bank reviews the country ratings on a regular basis for its international financing and investment	166	3.92	.93
The borrower's business performance is regularly observed by the bank following the extension of financing	166	3.81	1.06
Mean Value		3.82	1.06

Source: own survey, 2022

4.4.5 Managing Credit Risk

In respect to credit riskmanagement, five statements have been incorporated in the survey questionnaire of the study. As depicted in the table below, the overall mean score value for all the five statements of managing credit risk was 3.92 and the mean score value of each statement ranged between 4.04 and 3.78. The highest mean score value (4.04) of the third item indicts that commercial banks in Ethiopia have agood credit risk assessmentagendain every aspect of credit activities. Whereas, the 3.78 mean score value of the fifth item confirms

the relatively poor status across commercial banks in terms of regularly preparing periodic report of credit risk. The overall result attested that commercial banks in Ethiopia are good in managing credit risk and the variation among respondents' perception over the five statements of managing credit risk is low.

Table 4.10 Respondents' Perception onManaging Credit Risk

Items	N	Mean	SD
The Board of Directors' credit risk strategy is effectively translated and disseminated within the bank in the form of policies and procedures by top management.	166	3.89	1.05
The bank has an effective risk management framework (infrastructure, process and policies) in place for managing credit risk	166	3.89	1.03
The bank has a credit risk rating framework across all type of credit activities	166	4.04	.93
The bank monitors quality of the credit portfolio on day-to-day basis and takes remedial measures as and when any deterioration occurs	166	4.01	1.07
The bank regularly prepares periodic report of credit risk	166	3.78	1.14
Mean Value		3.92	1.04

Source: own survey, 2022

4.4.6 Managing Market Risk

In order to measure managing market risk across the selected banks, five statements have been included in the survey questionnaire of this particular study. As perceived by the sampled respondents, the overall mean score value for all the five items of the construct was 3.91, implying that the selected commercial banks are good in managing market risk and little variation among respondents' perception in this regard. Regarding the mean score value of each the five items slightly varies. ranging from 4.0 to 3.82. The high mean score value for item five, indicts the good practice of the selected commercial banks in terms of regularly preparing periodic report of market risk.

In contrast, the relative low mean score of the second item (3.82), shows the relative low status in having an operative risk administrationagenda for the purpose of credit risk management task However, in generalthe result of the study confirms that the designated commercial banks are good in terms of market risk management.

Table 4.11 Respondents' Perception onManaging Market Risk

Items	N	Mean	SD
The market risk strategy set by the Board of Directors are effectively transformed and communicated within the bank in the shape of policies and procedures by the top management	166	3.86	1.04
The bank has an effective risk management framework (infrastructure, process and policies) in place for managing market risk	166	3.82	1.06
The bank's overall market risk exposure is maintained at prudent levels and consistent with the available capital	166	3.97	1.02
To capture market risk in diverse business activities, the bank employs multiple risk measuring approaches.	166	3.91	1.03
The bank prepares a monthly report on market risk on a regular basis.	166	4.00	1.02
Mean Value		3.91	1.03

Source: own survey, 2022

4.4.7 Managing Liquidity Risk

The managing liquidity risk construct of the questionnaire contains five items so that respondents able to rate the managing liquidity risk based up on them. Accordingly, the mean score value for each the five items slightly varies from 3.52 to 3.87. Item five has highest mean score value (3.87), implying the application of liquidity risk management techniques across commercial banks, effectively reduce costs or expected losses.

On the other side, the relatively low mean score value (3.52) illustrates the Board of Directors' liquidity risk strategy not being successfully transformed and communicated within the bank in the form of policies and procedures by top management.

The overall mean score value for all the five items was 3.81. This result indicates that the selected commercial banks are virtuous in terms of liquidity risk management and the low variation among respondents' perception on managing liquidity rate. In general, as the overall mean score value for this construct is above the midpoint of the Likert's five scale of measurement, it can be judged that the sampled commercial banks are better in managing liquidity risk.

Table 4.12 Respondents' Perception on Managing Liquidity Risk

Items	N	Mean	SD
The bank has a proper set of rules and procedures for managing liquidity risk.	166	3.86	1.05
The Board of Directors' liquidity risk strategy is effectively translated and disseminated within the bank in the form of rules and procedures by top management.	166	3.52	1.22
The bank has an effective risk management framework (infrastructure, process and policies) in place for managing liquidity risk	166	3.94	.99
The bank regularly prepares periodic report of liquidity risk	166	3.84	1.11
Applications of liquidity risk management techniques reduce costs or expected losses	166	3.87	1.06
Mean Value		3.81	1.09

Source: own survey, 2022

4.4.8 Managing Operational Risk

In order to capture managing operational risk, five statements are incorporated in the survey questionnaire of this particular study. The sampled commercial banks' ability to continue operating as a going concern and reduce losses in the event of a serious business disruption is demonstrated by item four, which had the highest mean score value (4.23). Whereas, item five has a relatively low mean value of 3.92, indicating the selected banks relative low practice of preparing periodic report of operational risk on a regular basis.

The overall mean score value for all the five items of the constructs was 4.06. The overall mean score value for this construct exceeds the midpointof the Likert's five scale measures, indicating the good status of the selected commercial banks in terms of managing operational risk. The overall average standard deviation value tells us the low variation among the perception of the respondents on the five items in the construct. In general, the finding shows that there is good status of managing operational risk across the sampled commercial banks.

Table 4.13 Respondents' Perception on Managing Operational Market Risk

Items	N	Mean	SD
The bank has a suitable set of policies and procedures for managing operational risk.	166	4.10	.90
All operational risk categories relevant to their organization are recognized, understood, and defined by the bank's board and executive management.	166	4.08	.95
Through operational risk management policy, senior management of the bank transforms the strategic direction set by the board.	166	3.98	.95
The bank has business continuity and contingency strategies in place to safeguard its capacity to continue operating and reduce losses in the event of a serious business disruption.	166	4.23	.83
The bank prepares a monthly report of operational risk on a regular basis.	166	3.92	1.06
Mean Value		4.06	.94

Source: own survey, 2022

4.4.9 Risk Management Practices

Here respondents were requested to forward their perception on the risk management practice across the sampled commercial banks based on ten statements incorporated in the survey questionnaire for this construct.

The data in Table 4.14 shows that there is relatively little variation in the respondents' perceptions. The average response for all five items is 4.07, with a range of 4.34 to 3.84 for each item's mean response. The ninth component of the construct has the highest mean, 4.34, and states that banks' capital is sufficient if their capital-to-total-risk-weighted-assets ratio is equal to the cap imposed by the National Bank of Ethiopia. The average response for all five items is 4.07, with a range of 4.34 to 3.84 for each item's mean response. The ninth component of the construct has the highest mean, 4.34, and states that banks' capital is sufficient if their capital-to-total-risk-weighted-assets ratio is equal to the cap imposed by the National Bank of Ethiopia.

Based on the mean value score (3.84), the first practice is at the bottom of the group of risk management techniques, demonstrating the senior management of commercial banks' generally subpar performance in routinely evaluating the organizations' effectiveness in controlling its business risks.

The average response for all five items 4.07is above the midpoint of the Likert's five scale of measures, indicating good risk management practice across selected commercial banks. On the other hand, the average standard deviation is 0.92), showing low variation on the perception of the respondents regarding risk management practice of commercial banks.

Table 4.14 Respondents' Perception on Risk Management Practice

Items	N	Mean	SD
The bank's executive management evaluates the organization's effectiveness in controlling its business risks on a regular basis.	166	3.84	1.09
The bank continuously evaluates and provides feedback on the effectiveness of its risk management initiatives.	166	4.13	.84
The bank's risk management procedures and processes are documented and provide guidance to staff about managing risks	166	3.99	1.06
The bank's policy encourages training programs in the area risk management	166	4.04	.88
This bank places a strong emphasis on hiring professionals with extensive training in risk management.	166	3.95	1.01
One of the bank's goals is to handle risks effectively.	166	3.98	.98
Concentrating bank resources in a single economic area is too risky.	166	4.23	.84
The bank's capacity to manage risk effectively has increased as a result of the Basel capital Accord's implementation.	166	4.25	.82
If the ratio of capital to total risk-weighted assets is equal to the capital adequacy ratio established by the National Bank of Ethiopia, then the bank's capital is sufficient.	166	4.34	.78
Overall, the bank is regarded as having outstanding risk management procedures.	166	4.30	.92
Mean Value		4.11	.92

Source: own survey, 2022

4.5Inferential Statistics Analysis

Inferential statistics analysis enables researchers to infer about the total population based on sample ta. Here both correlation analysis and regression analysis were done in this section. The former was done to see the degree and direction of the association between variables included in the stud, while the later was used to examine the magnitude and direction of the effect of the independent variables on the dependent variable.

4.5.1 Correlation Analysis

Pearson correlation coefficient (r) was used to estimate the association between study variables. Accordingly, the result of the correlation analysis revealed that there exists significant positive correlation between the dependent variable and the explanatory variables.Accordingly, Risk Management practice was confirmed to have strong and positive association with Risk Identification,Risk Assessment and Analysis,Risk Monitoring and Controlling, Managing Credit Risk, managing liquidity Risk and Managing Operational, at 1% significant level with correlation coefficient r= .847, r= .793, r= .826, r=.779, r=.796 and r= .811, respectively. On the other hand, risk understanding and managing market risk showed moderate positive association with risk management practice at 1% significant level with correlation coefficient r= .698 and r= .713, respectively.

Table 4.15 Correlation Analysis

Variables	RU	RI	RAA	RMC	MCR	MMR	MLR	MOR	RMP
RU	1								
RI	.636**	1							
RAA	.578**	.882**	1						
RMC	.613**	.906**	.855**	1					
MCR	.588**	.730**	.769**	.748**	1				
MMR	.495**	.663**	.596**	.616**	.650**	1			
MLR	.601**	.678**	.627**	.668**	.647**	.577**	1		
MOR	.549**	.676**	.651**	.668**	.681**	.600**	.732**	1	
RMP	.698**	.847**	.793**	.826**	.779**	.713**	.796**	.811**	1
**. Correlation is significant at the 0.01 level (2-tailed).									

Source: own survey, 2022

4.5.2 Regression Analysis

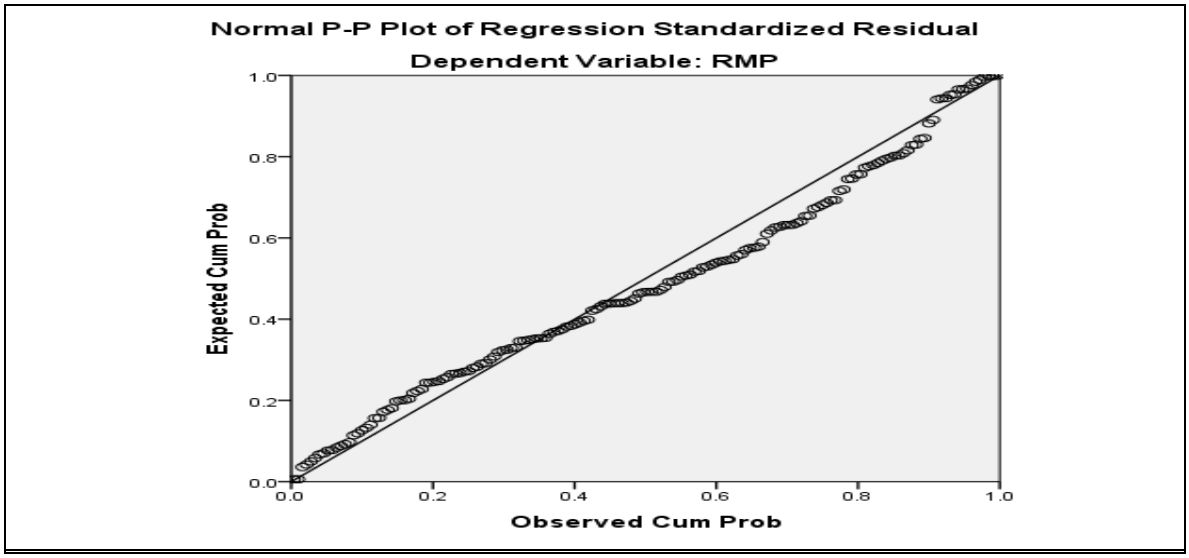
Regression analysis help researchers test the magnitude and direction of the effect of independent variables and the dependent variable. This study adopted multiple linear regression with ordinary least square (OLS) technique in regression analysis technique. However, in order to apply the ordinary least square (OLS) technique in regression analysis, the data to be deployed in the econometric model should fulfill the five assumptions of OLS.

The violation of one of these assumptions may lead to spurious regression result. Therefore, the diagnosis tests were performed aiming to avoid invalid regression results. The diagnosis tests result revealed that the model has passed all the tests i.e., heteroscedasticity, Multicollinearity, linearity and normality. As serial correlation is a potential threat for only time series data but not for cross-sectional data, it was not necessary to conduct such test for this study.

4.5.2.1 Diagnosis Test Result

i. Linearity

Figure 4.1: Test of Linearity



Source: own survey, 2022

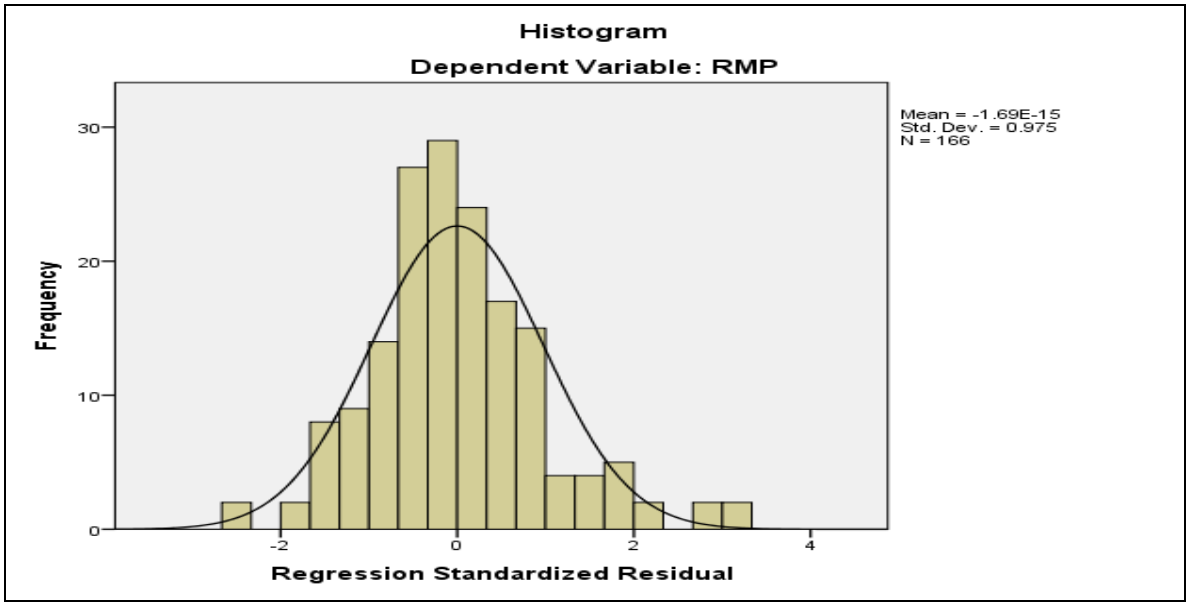
In order to apply a multiple regression with ordinary least square (OLS) the relationship that exists between the dependent variable the independent variable need to be linear. In this study among the various methods of testing linearity scatter plot diagram with line of fit was applied to see whether the relationship is linear.

The result of scatter plot diagram with line of fit confirmed that a linear relationship existed between the dependent variable and those independent variables.

ii. **Normality**

One of the assumptions in multiple regression analysis with ordinary least square (OLS) method is that the sample data is obtained from normally distributed population. This implies that errors are normally distributed, and that a plot of the values of the residuals will approximate a normal curve (Keith, 2006). In this study histogram of the standardized residuals was used to test normality of data.

Figure 4.2 Test of Normality



Source: own survey, 2022

As it can be seen in the histogram above the data deployed for this study was sourced from normally distributed population, confirming it fulfilled the assumption of normality.

iii. Multicollinearity

The problem of Multicollinearity occurs when two or more variables giving rise of the same piece of information are included in the regression model. In other word, Multicollinearity is the result of unnecessary inclusion of related variables. A collinearity diagnostic test was conducted using the regression analysis. Variance inflation factor (VIF) is commonly used to detect Multicollinearity. In general, a VIF greater than 10 indicates a multicollinearity problem. An examination of VIF for variables in our model showed that multicollinearity was not a potential problem.

Table 4.16 Test of Multicollinearity

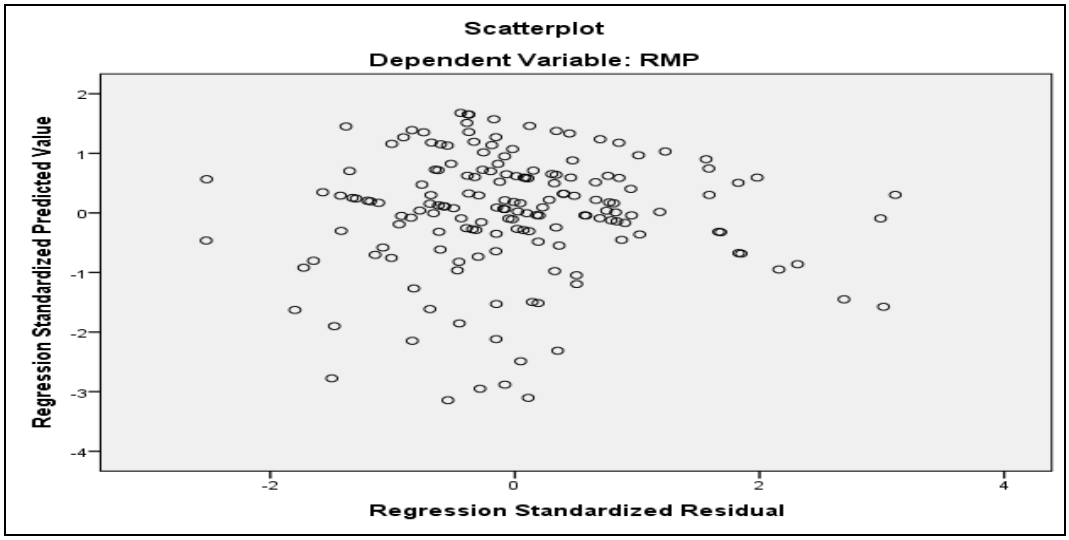
Model		Collinearity Statistics	
		Tolerance	VIF
1	RU (Risk understanding)	.527	1.899
	RI (Risk identification)	.119	8.370
	RAA (Risk assessment & analysis)	.179	5.601
	RMC (Risk monitoring &controlling)	.156	6.420
	MCR (Managing credit risk)	.303	3.296
	MMR (Managing market risk)	.475	2.104
	MLR (Managing liquidity risk)	.373	2.681
	MOR (Managing operational risk)	.368	2.715
a. Dependent Variable: RMP			

Source: own survey, 2022

iv. Homoscedasticity

This assumption tells us that every disturbance has the same variance whose value is unknown, that is regardless of their size, the dispersion of the error term (disturbance) is the same. Whenever this assumption is violated, we will have the case of heteroscedasticity. Heteroscedasticity often occurs in cross sectional data. As it can be seen in the Figure 4.3 below, the standardized residuals are evenly distributed attesting that the data has no heteroscedasticity problem

Figure 4.3 Test of heteroscedasticity



Source: own survey, 2022

4.5.2.2Regression Analysis Result

The main objective of this study was to examine association between risk management practice and its components in the case of commercial banks in Ethiopia. Therefore, in order to examine the effect of the explanatory variables on the dependent variable multiple linear regressions analysis with ordinary least square (OLS) technique was applied. This technique is help to examine the effect of more than one explanatory variable on the dependent variable.

In the regression model, eight independent variables namely; risk understanding, risk identification, risk assessment and analysis, risk monitoring and controlling, managing credit risk, managing market risk, managing liquidity risk and managing operational risk. Whereas, risk management practice was considered as a dependent variable.

The econometric model of this particular study can be presented as follows;

$RMP = \beta_0 + \beta_1$ RU+ β_2 RI + β_3 RAA + β_4 RMC + β_5MCR + β_6MMR + β_7MLR + β_8MOR + ε_i

Where, β_0= the interest or the constantan term

β_1……...β_8= the elasticity coefficients

RMP= Risk Management Practice

RU= Risk Understanding

RI= Risk Identification

RAA= Risk Assessment and Analysis

RMC= Risk Monitoring and Controlling

MCR= Managing Credit Risk

MMR= Managing Market Risk

MLR= Managing Liquidity Risk

MOR= Managing Operational Risk

ε_i = The error terms

The result of the regression analysis result was presented below as follows;

4.5.2.2.1 Model Summery and ANOVA

As a part of the multiple linear regression analysis the adjusted R-squared value in the model summery was indicated to be 0.869. This implies that the four explanatory variables included in the econometric model explain about 87 percent of the variation in the dependent variable. In other word the remaining 13 % of the variation on the dependent variable is explained by other variables that are not in corporate in this model.

Table 4.17 Model Summery

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.936[a]	.875	.869	.26258
a. Predictors: (Constant), MOR, RU, MMR, RAA, MLR, MCR, RMC, RI				

Source: own survey, 2022

According to the analysis of variance (ANOVA) as presented in the table 4.18 below the with the F test=137.184 (p-value= 0.000 <1 percent) attested that the model is fit to the data. This implies that the explanatory variables included in the regression model have high predicting power of the effect of the explanatory variable on the dependent variable.

Table 4.18Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	76.002	8	9.500	137.784	.000[b]
	Residual	10.825	157	.069		
	Total	86.828	165			
a. Dependent Variable: RMP						
b. Predictors: (Constant), MOR, RU, MMR, RAA, MLR, MCR, RMC, RI						

Source: own survey, 2022

In order to understand the degree and significance of the effect of each independent variable on the dependent variable, multiple linear regression analysis with ordinary least square (OLS) technique was conducted. The value of the elasticity coefficient or Beta coefficient indicates the magnitude of the effect of each independent variable on the dependent variable, while the sign of the beta coefficient indicates the direction of the effect. The P- value

indicates the level of significance of the effect of each independent variable on the dependent variable.

Accordingly, the estimated result revealed that, out of the eight independent variables, five of them have statistically significant positive effect on the dependent variables, while the remaining three independent variables do not have statistically significant effect on the dependent variable.The detailedresult of the regression analysis has beenreported below.

In this regard, as depicted in the table 4.19, among the explanatory variables included in the regression model,managing operational risk has been found to have a strongest, statistically significant positive effect on risk management practice; followed by managing liquidity risk, risk understanding, managing market risk and risk identification, respectively.

Accordingly, the regression analysis result confirmed the positive and statistically significant effect of managing operational risk (MOR) on risk management practice (RMP) with beta coefficient value (β=.243), at 1 percent level of significant (P-value=.000). This finding affirms that managing operational risk is the major aspect of risk management practice in commercial banks in Ethiopia. The result can be interpreted as, other things remain unchanged, when operational risk management improves by a unit, risk management practice will improve by .234 units. This finding is in agreement with the findings of (Ishtiaq, 2015), (Pearl & Awudu, 2013) and (Belay & Sindhu, 2021). Therefore, the relatively high positive effect of managing operational risk indicates the need for the managements commercial banks in Ethiopia to give more attention to this variable, so as to bring about improvement on the overall risk management practice.

According to the regression analysis result, managing liquidity risk (MLR) has been found to be the second most important variable in influencing risk management practice of commercial banks in Ethiopia. Hence, with beta coefficient value (β=.171) and P-value=.000, managing liquidity risk (MLR) is attested to has statistically significant positive effect on risk management practice (RMP). The interpretation is that, other things remain constant, when liquidity risk management improved by a unit, risk management also improve by .171 units. This finding is also in line with the findings of (Ishtiaq, 2015) and (Belay & Sindhu, 2021).

With beta coefficient value (β=.107) and P-value=.001, risk understanding(RU) was identified as the third most important variable in positively affecting risk management practice (RMP). This is an indication for the managements of commercial banks in Ethiopia to give an emphasis towards working on this variable thereby enhance their risk management practice. Because, in order to put in place an effective risk management practice, organizations need first to understand the associated risks to their business environment. The finding can be interpreted as, a unit improvement in risk understanding among employees causes .107-unit enhancement to risk management practice, which is vital in risk minimization as well as raising organizational performance. This finding is consistent with the findings of (Ishtiaq, 2015) and (Belay & Sindhu, 2021), but in contrast with the finding of (Pearl & Awudu, 2013).

The regression analysis result also revealed that, managing market risk (MMR) has a statistically significant positive influence on risk management practice of commercial banks in Ethiopia. The beta coefficient value (β=.171) and (P-value=.005), tells us that, other things kept unchanged, as market risk management enhanced by a unit, risk management practice across commercial banks in Ethiopia will be improved by .171 unit at 1 percent significant level. Its, therefore, crucial to managements of commercial banks give due attention to their market management so that they can improve their risk management practice. This finding is in agreement with findings of (Ishtiaq, 2015) and (Belay & Sindhu, 2021), but inconsistence with the finding of (Pearl & Awudu, 2013).

Finally, the regression analysis result confirmed that risk identification (RI) has a statically significant positive influence on risk management practice of commercial banks in Ethiopia at 5 percent level of significant (P-value=.012) and with beta coefficient value of .196.This implies that, a unit improvement in risk identification leads to .196 unit's enhancement in risk management practice of commercial banks in Ethiopia. As effective tackling risks first requires the identification of the potential risks associated with that specific business environment, mangers of commercial banks also should to give an important attention to the risk identification aspect of risk management practice. This finding is in agreement with the finding of (Ishtiaq, 2015), but in contradiction with the findings of (Pearl & Awudu, 2013) and (Belay & Sindhu, 2021).

Table 4.19 the multiple regression analysis result

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.143	.133		-1.076	.283
	RU	.117	.036	.128	3.292	.001
	RI	.196	.077	.207	2.534	.012
	RAA	.030	.061	.033	.488	.626
	RMC	.120	.075	.114	1.592	.113
	MCR	.074	.046	.081	1.588	.114
	MMR	.107	.037	.118	2.879	.005
	MLR	.171	.043	.184	3.979	.000
	MOR	.243	.046	.244	5.260	.000
a. Dependent Variable: RMP						

Source: own survey, 2022

Eight research hypotheses were formulated for this specific study to be tested with the finding of the regression analysis. Accordingly, the result of the regression analysis against each research hypothesis has been reported in the table below (table 4.20).

Table 4.20 The result of the regression analysis against research hypothesis

Sr.no	Research hypotheses	Result
RH1	There is significant relationship between risk understanding aspect of risk management and risk management practices of commercial banks in Ethiopia.	Accepted
RH2	There is significant relationship between risk identification aspect of risk management and risk management practices of commercial banks in Ethiopia.	Accepted
RH3	There is significant relationship between risk assessment and analysis aspect of risk management and risk management practices of commercial banks in Ethiopia.	Rejected
RH4	There issignificant relationship between risk monitoring and controlling aspect of risk management and risk management practices of commercial banks in Ethiopia.	Rejected
RH5	There is significant relationship between credit risk management aspect of risk management and risk management practices of commercial banks in Ethiopia.	Rejected
RH6	There is significant relationship between market risk management aspect of risk management and risk management practices of	Accepted

	commercial banks in Ethiopia.	
RH7	There is significant relationship between liquidity risk management aspect of risk management and risk management practices of commercial banks in Ethiopia.	Accepted
RH8	There is significant relationship between operational risk management aspect of risk management and risk management practices of commercial banks in Ethiopia.	Accepted

Source: own survey, 2022

CHAPTERFIVE

SUMMARYOFFINDINGS,CONCLUSIONANDRECOMMENDATIONS

This chapter of the study presented the summary of the basic findings, conclusion drawn fromthe study finding and recommendations forwarded by the researcher.

5.1 SummaryoftheMajorFindings

The general objective of the study is to examine the risk management practice of commercial banks in Ethiopia. In order to achieve this objective, the study deployed both descriptive and explanatory research designs. The required data was collected from 170 sampled respondents selected from 17 selected commercial banks in Ethiopia. A well-structured closes ended survey questionnaire was used as a data collection toll for this study. The data was analyzed using SPSS version 24.

A total of 170 questionnaires were distributed to the respondents.Out of it 164 questionnaires were received back properly filed. Therefore, the questionnaire return rate was 97.7 percent, which is adequate enough to come up with valid study findings.

In order to understand the respondents' perception of the various constructs of bank specific risk management practice and its components, different statements were presented under each construct of the survey questionnaire. Accordingly, each statement under each construct was subjected to the five Likert scale of e measurement.

Accordingly, the descriptive statistics analysis revealed that, in overall the with the mean score value of 3.47(SD=1.21), 3.64 (SD=1.07), 3.76 (SD=1.08) and 3.82 (SD=1.06), commercial banks are good in terms of risk understanding, risk identification, risk assessment and analysis; and risk monitoring and controlling, respectively. The aggregate mean score value of these variables was above the mid-point of Likert's five scale measurement and their average standard deviation ranged between 1.06 and 1.21, indicating the good status of

commercial banks in Ethiopia and the small variation in the perception of the respondents regarding the various statements under each contract.

On the other hand, the descriptive analysis result confirmed, that commercial banks in Ethiopia have good status in terms managing credit risk, managing market risk, managing liquidity risk and managing operational risk. According to result, the overall mean value of managing credit risk, managing market risk, managing liquidity risk and managing operational risk were 3.92(SD=1.04), 3.91(SD=1.03), 3.81(SD=1.09) and 4.06 (SD=.94), respectively. The overall mean score value for all the above four variables were above the mid-point of Likert's five scale measurement and their average mean score values were also minimum, attesting the good status of commercial banks in those variables (risk management aspects) and the low variation in the perception of the sampled respondents on the various statements under each contrast.

Regarding the overall risk management practice across commercial banks in Ethiopia, the descriptive statistics result affirmed the good performance of commercial banks in terms of the overall risk management practice. The average response for all five items 4.07is above the midpoint of the Likert's five scale of measures, indicating good risk management practice across selected commercial banks. On the other hand, the average standard deviation is 0.92), showing low variation on the perception of the respondents regarding risk management practice of commercial banks.

In order to examine the degree and direction of the association between the dependent variable and the independent variable, the study deployed Pearson correlation coefficient (r). The result of the correlation analysis revealed that there exists significant positive correlation between the dependent variable and the explanatory variables.Accordingly, Risk Management practice was confirmed to have strong and positive association with Risk Identification,Risk Assessment and Analysis,Risk Monitoring and Controlling, Managing Credit Risk, managing liquidity Risk and Managing Operational, at 1% significant level with correlation coefficient r= .847, r= .793, r= .826, r=.779, r=.796 and r= .811, respectively.

On the other hand, risk understanding and managing market risk showed moderate positive association with risk management practice at 1% significant level with correlation coefficient r= .698 and r= .713, respectively.

In overall, the correlation coefficient analysis result attested the positive and statistically significant correlation between the dependent variable and all the eight independent variables.

Through correlation analysis the study examined the association between the dependent variable and the independent variable. However, in order to examine the effect of the explanatory variables on the dependent variable multiple linear regressions analysis with ordinary least square (OLS) technique was applied. This technique is help to examine the effect of more than one explanatory variable on the dependent variable.

However, the data to be used in the econometric model should meet the five assumptions of OLS in order to employ the ordinary least square (OLS) technique in regression analysis. Therefore, the diagnosis tests were run in an effort to prevent getting false-positive regression results. One of these presumptions being broken could produce a false regression result. The model passed all of the tests, including those for heteroscedasticity, multicollinearity, linearity, and normalcy, according to the results of the diagnosis tests. It was not necessary to do such a test for this investigation because serial correlation only poses a risk to time series data and not to cross-sectional data.

As a part of the multiple linear regression analysis the adjusted R-squared value in the model summery was indicated to be 0.869. This implies that the four explanatory variables included in the econometric model explain about 87 percent of the variation in the dependent variable.

According to the analysis of variance (ANOVA) as presented in the table 4.18 below the with the F test=137.184 (p-value= 0.000 <1 percent) attested that the model is fit to the data. This implies that, at least one of the independent variables has statistically significant effect on the dependent variable.

In order to understand the degree and significance of the effect of each independent variable on the dependent variable, multiple linear regression analysis with ordinary least square (OLS) technique was conducted.

Accordingly, the estimated result revealed that, out of the eight independent variables, five of them have statistically significant positive effect on the dependent variables, while the

remaining three independent variables do not have any statistically significant effect on the dependent variable.

Accordingly, the regression analysis result verified the relationship between managing operational risk (MOR) and risk management practice (RMP), showing the positive and statistically significant effect of (MOR, with a beta coefficient value of (=.243) at the 1% level of significance (P-value=.000).

The results of the regression study show that managing liquidity risk (MLR) is the second most significant factor affecting how commercial banks in Ethiopia manage risk. Thus, managing liquidity risk (MLR) is demonstrated to have a statistically significant positive impact on risk management practice with beta coefficient value (=.171) and P-value=.000 (RMP).

The third most significant variable in favorably influencing risk management practice was identified as risk understanding (RU), with a beta coefficient value of (=.107) and a P-value of.001 (RMP).

The regression study results also showed that managing market risk has a statistically significant positive impact on the risk management practices of commercial banks in Ethiopia, with a beta coefficient value of (=.171) and (P-value=.005).

Finally, the regression analysis result confirmed that risk identification (RI) has a statically significant positive influence on risk management practice of commercial banks in Ethiopia at 5 percent level of significant (P-value=.012) and with beta coefficient value of .196.

5.2 Conclusion

Based on the main findings of the study and discussions made over the findings, the following conclusive points were drawn in line with the research objectives.

The descriptive statistics analysis findings indicated that all the risk management aspects have found to have in overall mean score value above the mid-point value of the Likert's five scale measure. Based on this it is concluded that there is a good practice of risk understanding, risk identification, risk monitoring and controlling, risk assessment and analysis, managing credit risk, managing market risk, managing liquidity risk and managing

operational risk across commercial banks in Ethiopia.

Based on the descriptive statistics analysis result it is also concluded that commercial banks in Ethiopia are good in overall risk management practice.

Based on the correlation analysis, it is concluded that Risk Identification,Risk Assessment and Analysis,Risk Monitoring and Controlling, Managing Credit Risk, managing liquidity Risk and Managing Operational have strong positive association with risk management practice across commercial banks in Ethiopia.

Based on the same finding it is also concluded that risk understanding and managing market risk have moderate but statistically significant positive association with risk management practice across commercial banks in Ethiopia.

From the regression analysis result it is concluded that, managing operational risk is the first most important variable in positively influencing the overall risk management practice in the case of commercial banks in Ethiopia.

On the basis of the same finding, its concluded that, managing liquidity risk is the second most important variable in affecting the overall risk management practice of commercial banks in Ethiopia, followed by; risk understanding, managing market risk and risk identification.

5.3 Recommendations

Organizations, especially those in the banking sector, must implement sound risk management policies and strategies in the present, fiercely competitive business environment if they are to improve organizational performance and fulfill their organizational goals. The researcher provided the following recommendations based on the study's basic research findings and conclusions.

- The current study affirmed that the various aspects of risk management practices have statistically significant effect on the overall practice of risk management across commercial banks in Ethiopia. Accordingly, its crucial for commercial banks of Ethiopia to formulate a sound risk management strategy towards risk understanding and risk identification.

- Moreover, putting in place a thorough and suitable risk management system is not only a necessary procedure to satisfy regulatory requirements but also a successful exercise to enhance the performance of commercial banks.
- Therefore, it's important for commercial banks in Ethiopia to implement appropriate risk management system including operational risk, liquidity risk and market risk.
- Commercial banks in Ethiopia also need to facilitates trainings to their staffs to enhance their level of understanding, identifying and managing the various potential risks in the banking sector.

5.4 Direction for Future Studies

The current study was done based on primary data gathered sample respondents from risk management division of selected commercial banks using survey questionnaire. However, the researcher strongly believe that risk management is not the sole responsibility of risk management division, its rather a responsibility of the various departments of commercial banks. Therefore, those who are interested to conduct studies in this area need to cover respondents from the different divisions of commercial banks. Further, the current study examined the association between risk management practice and its different aspects. Thus, future studies are advised to consider the association between risk management practice in relation to organizational performance.

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Appendices I

Survey Questionnaire

Addis Ababa University

School of post graduate

College of Business and Economics

Department of Management

Researcher: -Fikru Abraham

Mobile number**: -**

Research Title: - The effect of management practices of the components of bank specific risks on the overall risk management practice in the case of commercial banks in Ethiopia.

Dear respondents

I am currently pursuing my Postgraduate Degree in Management at Addis Ababa university as partial fulfillment towards the completion of my post graduate degree. Hence, I kindly request you to respond for this questioners' while assuring you that the information that you provide will be treated with confidentiality and shall only be used for the purpose of this academic research. I would also like to remind you that your fair and impartial feedback will make this study a very successful.

Part I: Demographic information

SECTION 2: GENERAL BACKGROUND INFORMATION OF

1. Gender of respondents:1. Male ☐ 2. Female ☐

3. Age of respondents: 1. 18-30 ☐ 2. 31-40 ☐ 3. 41-50 ☐ 4. Above 50 ☐

4. Highest level of educational of respondents: 1. Elementary ☐ 2. Secondary ☐ 3. Diploma ☐ 4. First degree ☐ 5. Second degree ☐

5. Respondents Work Experience

1. Less than 2 years ☐ 2. 2-5 years ☐ 3.6-10 years ☐ 4. Above 10 years ☐

6. Level of position

1. Internal auditors at credit risk management ☐

2. Credit risk analyst at credit risk management unit ☐

3. Credit risk internal controller at credit risk management ☐

4. Credit risk examiner ☐

5. Head credit risk division ☐

Sr.no	Statements	1	2	3	4	5
1	All bank employees share a same knowledge of risk management.					
2	The bank has a good strategy in place for comprehending different hazards.					
3	Every employee at the bank is aware of and accountable for risk management.					
4	Through the bank, responsibility for risk management is outlined and recognized.					

3. 1. Credit Risk Understanding

3. 2.Risk Identification

Sr.no	Statements	1	2	3	4	5
1	The bank identifies its risks in relation to each of its stated goals and objectives in a comprehensive and methodical manner.					
2	Prioritizing its primary credit risks presents challenges for the bank.					
3	Changes in risks are acknowledged and correlated with the tasks and responsibilities of the bank.					
4	The bank is aware of the benefits and drawbacks of other banks' risk management programs.					
5	The bank has created and implemented methods for the methodical detection of opportunities.					
6	It is essential that banks use the most cutting-edge methods for risk identification.					

3.3. Risk Assessment and Analysis

Sr.no	Statements	1	2	3	4	5
1	Thisbank assesses the likelihood of occurring risks					
2	This bank’srisks are assessed by using quantitative analysis methods					
3	This bank’s risks are assessed by using qualitative analysis methods					

4	The bank examines and assesses its opportunities to achieve goals.					
5	A cost-benefit analysis of mitigating risks is part of the bank's response to analyzed risks.					
6	The bank's response to analyzedrisks includes prioritizing of risks and selecting those that need active management					
7	When resources are limited for risk treatment implementation, the bank responds to identified risks by prioritizing risk treatments.					
8	Before extending credit or carrying out transactions, the bank does a credit worthiness study.					
9	My bank conducts in-depth investigation before to extending credit or capital, taking into account the applicant's capacity, character, collateral, and circumstances.					
10	A computer-based support system is used by the bank to estimate profitability and risk management variations.					
11	The output of quantitative data combined with human judgment is what the bank uses.					

3.4.Risk Monitoring and Controlling

Sr.no	Statements	1	2	3	4	5
1	Regular management reporting includes evaluating the effectiveness of risk management.					
2	The bank's level of control is reasonable given the risks it confronts.					
3	From lowest to top management, the bank has established a consistent reporting system for risk management.					
4	Processes for reporting and communication inside the bank aid in the efficient management of risk.					
5	An assessment of the efficiency of the current controls and risk management measures is part of the bank's response to risk.					
6	The bank's risk management strategy includes action plans and choices regarding the implementation of recognized credit risks.					
7	The bank efficiently keeps track of each counterparty's credit limit.					
8	The bank regularly evaluates the country ratings for its worldwide lending and investment.					
9	The bank continues to monitor the borrower's business performance after the funding is extended.					

3.5. Managing Credit Risk

Sr.no	Statements	1	2	3	4	5
1	The credit risk strategy set by the Board of Directors are effectively transformed and communicated within the bank in the shape of policies and procedures by the top management					
2	The bank has an effective risk management framework (infrastructure, process and policies) in place for managing credit risk					
3	The bank has a credit risk rating framework across all type of credit activities					
4	The bank monitors quality of the credit portfolio on day-to-day basis and takes remedial measures as and when any deterioration occurs					
5	The bank regularly prepares periodic report of credit risk					

3.6. Managing Market Risk

Sr.no	Statements	1	2	3	4	5
1	Top management effectively transforms and disseminates the market risk strategy adopted by the Board of Directors throughout the bank in the form of policies and procedures.					
2	For controlling market risk, the bank has a strong framework for risk management in place, including infrastructure, procedures, and regulations.					
3	The bank's overall market risk exposure is kept at reasonable levels and in line with the capital that is available.					
4	To quantify market risk in a variety of business activities, the bank uses numerous risk measurement approaches.					
5	The bank prepares a monthly report of market risk on a regular basis.					

3.7. Managing Liquidity Risk

Sr.no	Statements	1	2	3	4	5

1	The bank has a suitable set of policies and procedures for managing liquidity risk.					
2	Top management effectively transforms and communicates the liquidity risk strategy adopted by the board of directors inside the bank in the form of policies and procedures.					
3	The bank has put in place an efficient framework (infrastructure, procedures, and regulations) for controlling risk related to liquidity.					
4	The bank prepares a monthly report on liquidity risk on a regular basis.					
5	Utilizing liquidity risk management strategies can cut expenses or anticipate losses.					

3.8. Managing Operational Risk

Sr.no	Statements	1	2	3	4	5
1	There is a proper set of rules and guidelines, for managing operational risk, available in the bank					
2	Board and executive management of the bank recognizes, understands and has defined all categories of operational risk applicable to their institution					
3	Senior management of the bank transforms the strategic direction given by the board through operational risk management policy					
4	The bank has contingency and business continuity plans to ensure its ability to operate as going concern and minimize losses in the event of severe business disruption					
5	The bank regularly prepares periodic report of operational risk					

3.9. Risk Management Practices

Sr.no	Statements	1	2	3	4	5
1	The bank's executive management evaluates the organization's effectiveness in controlling its business risks on a regular basis.					
2	The bank continuously evaluates and provides feedback on the effectiveness of its risk management initiatives.					
3	The bank's established risk management policies and procedures give personnel advice on how to manage risks.					
4	The bank's policy supports risk management training initiatives.					
5	This bank places a strong emphasis on hiring professionals					

	with extensive training in risk management.					
6	One of the bank's goals is to handle risks effectively.					
7	Concentrating bank resources in a single economic area is too risky.					
8	The Basel capital Accord's implementation has increased the bank's ability to effectively manage risk.					
9	If the ratio of capital to total risk-weighted assets is equal to the capital adequacy ratio established by the National Bank of Ethiopia, the bank's capital is considered adequate.					
10	Overall, the bank is regarded as having outstanding risk management procedures.					

THANK YOU!