



**ASSESSMENT OF RISK MANAGEMENT PRACTICE OF  
DASHEN BANK**

**BY  
HILINA GIRMA**

**SUMMITTED TO ADDIS ABABA UNIVERSITY COLLEGE OF  
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**ADDIS ABABA UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS  
DEPARTMENT OF ACCOUNTING AND FINANCE**

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**Addis Ababa University**  
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This is to certify that this thesis prepared by Hilina Girma, entitled; "Assessment of Risk Management practice of Dashen Bank " and submitted in partial fulfillment of the requirements for the Degree of Master of Science in Accounting and Finance complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

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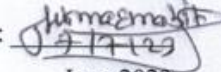
### Statement of Declaration

Hilina Girma, have carried out independently a research work on Risk Management Practice of  
Urban Banks in partial fulfillment of the requirement of the M.SC program in Accounting and  
Finance with the guidance and support of the research advisor.

I do declare that this thesis is my original work and has not been presented for a degree in any  
other university, and that all sources of materials used for the thesis have been duly  
acknowledged.

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June 2023

### Statement of Certification

This is to certify that Hilina Girma has carried out her research work on the topic entitled "Risk Management Practice of Dashen Banks". The work is original in nature and is suitable for submission for the reward of the M.Sc. Degree in Accounting and Finance.

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## **Abstract**

*The aim of this paper is to analyze the effectiveness of risk management practice of dashen banks. Information was obtained from Dashen Bank risk management department staff by adopting quantitative method in a research design. Open and closed-ended questionnaires were administered to 100 respondents from risk management department. The questionnaires covered key aspects of risk management including the importance of risk management practice, risk identification, risk monitoring and nature of risk management practices. After the questionnaires were completed, the answers were analyzed using statistical processing software, SPSS . The main findings of this paper are: risk managers perceive risk management as critical to their banks performance; the types of risks causing the greatest exposures are credit risk, market risk, liquidity risk, interest rate risk and money laundry risk; and, banks are utilizing some of the approaches/techniques traditionally used to manage risks. Some recommendations were made and prominent amongst them were that Dashen Bank should give emphasis in staff training of the area of type of risk, identification of risk and management and they must make risk visible, measurable and manageable and ensure a meaningful risk culture throughout all processes and activities.*

**Key words:** *Dashen Banks, Risk Management, and Risk Management Practices*

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# CHAPTER ONE

## 1. Introduction

In this introductory part, background of the study, background of the company, problem statement, research questions, methodology, significance and scope of the study are discussed

### 1.1 Background of the study

We're all faced with risk in our everyday lives. And although risk is an abstract term, our natural human understanding of the trade-offs between risk and reward is pretty sophisticated. For example, in our personal lives, we intuitively understand the difference between a cost that's already been budgeted for (in risk parlance, a predictable or expected loss) and an unexpected cost (at its worst, a catastrophic loss of a magnitude well beyond losses seen in the course of normal daily life). In particular, we understand that risk is not synonymous with the *size* of a cost or of a loss. After all, some of the costs we expect in daily life are very large indeed if we think in terms of our annual budgets: food, fixed mortgage payments, college fees, and so on. These costs are big, but they are not a threat to our ambitions because they are reasonably predictable and are already allowed for in our plans. (Crouhy et al., 2006).

Banks are subjected to a wide array of risks in the course of their operations. In general, banking risks fall into three categories: financial, operational, and environmental risks. Financial risks in turn comprise two types of risk. Traditional banking risks including balance sheet and income statement structure, credit, and solvency risks can result in loss for a bank if they are not properly managed. Treasury risks, based on financial arbitrage, can result in a profit if the arbitrage is correct or a loss if it is incorrect. The main categories of treasury risk are liquidity, interest rate, currency, and market (including counterparty) risks. Financial risks are also subject to complex interdependencies that may significantly increase a bank's overall risk profile. For example, a bank engaged in the foreign currency business is normally exposed to currency risk, but it will also be exposed to additional liquidity and interest rate risk if the bank carries open positions or mismatches in its forward book. (Greuning & Bratanovic, 2009).

Banking is experiencing a technological change .The most important of which are banks provide service .Banks and other institution have display of digitization and innovation initiatives. These initiatives engagement latest technologies to ensure a customer based instead of the traditional focus on products in addition to this competition increases inside the bank and rival banks.

The future cannot be predicted. It is uncertain, and no one has ever been successful in forecasting the stock market, interest rate, or exchange rates consistently or credit, operational, and systematic events with major financial implication. Yet, the financial risk that arises from uncertainty can be managed. Indeed, much of what distinguishes modern economics from those of the past is the new ability to identify risk, to measure it , to appreciate its consequences, and then to take action accordingly , such as transferring or mitigating the risk.(Crouhy et al., 2006).

Regulatory carefully over banks activities monitor their risk management standard closely and impose a unique set of minimum required regulatory capital rules on them. Why do they do so? There are two key reasons: banks collect deposits from ordinary savers, and they play a key role in the payment and credit system. While bank deposits are often insured by specialized institution ( such as federal deposit corporation in the united states the Canadian insurance corporation in Canada), in effect national government acts as guarantor for commercial banks; some also acts as a lender of last resort. National governments therefore have a very direct interest in ensuring that banks remain capable of meeting their obligation: they wish to limit the cost of government “Safety net” in the event of bank failure. This is one reason why the amount of capital retained by a bank is regulated. By acting as a buffer against unanticipated losses, regulatory capital helps to privatize a burden that would otherwise be borne by national government.(Crouhy et al., 2006).

Risk management can contribute to the organization’s general goals in several ways. The first and most important one is in guaranteeing, insofar as possible, that the organization will not be prevented from pursuing its other goals as a result of losses associated with pure risks. If

risk management made no contributions other than guaranteeing survival, this alone would seem to justify its existence. But risk management can contribute to corporate and organizational goals in other ways. It can contribute directly to profit by controlling the cost of risk for the organization that is, by achieving the goal of economy. Since profits depend on the level of expenses relative to income, to the extent that risk management activities reduce expenses, they directly increase profits. (Vaughan,2008)

If there is no proper risk management, banks exposed to risk that means the banks can get huge amount of revenue , they loss their profit due to uncollected loans leads to banks insolvency and affect many peoples. Therefore government set strong rule and regulation in connection with risk management. The capacity of banks manages their risk an impact potential investor's decision that able to provide profit.

### **1.2 Background of the company**

Dashen Bank was founded by eleven visionary shareholders and veteran bankers with initial capital of Birr 14.9 million in September 1995. Upon securing license from the National Bank of Ethiopia, Dashen opened its doors for service on the 1st of January 1996 with eleven fully-fledged branches. Dashen Bank coined its name from the highest peak in Ethiopia, mount Dashen, and aspires to be unparalleled in banking services. Ras Dashen is Part of the Simien Mountains National Park, an exotic setting with unique wildlife and breath-taking views on a landscape shaped by nature and traditional agriculture. (Dashen Bank)

The Simien Mountains is home to endemic wild life including the Walia Ibex, Simien Fox or Ethiopian Wolf and the Gelada Baboon. Dashen aspires to set new heights in banking services through the delivery of unique value propositions second to none. Headquartered in Addis Ababa, the Bank is among the biggest private Banks in Ethiopia. It operates through a network of more than 400+ Branches, ten dedicated Forex Bureaus, 350+ ATMs and 850 plus Point-of-Sale (POS) terminals spread across the length and breadth of the nation. It has established correspondent banking relationship with 462 banks covering 70 countries and 170 cities across the world. Wherever business takes customers around the world, Dashen Bank is already there. (Dashen bank)

Dashen is the most reputable brand in the domestic banking market; a reputation earned through consistent delivery of values and preeminence unmatched by its competitors. Apart from the conventional banking, Dashen Bank also offers Sharia Compliant Interest Free Banking dubbed “SHARIK”. The Bank also works in partnership with leading brands in the electronic payments industry (AMEX, VISA, MasterCard & UnionPay) and prominent money transfer operators (Western Union, MoneyGram, Express Money & Dahabshiil, Ezremit, Transfast, WorldRemit and Ria). Dashen Bank and its technology partner Moneta Technologies introduced “Amole” Digital Omni channel payment platform that offers subscribers digital payment capacity and access to aggregated digital product and service from Retailers, Entertainment Industries, Airtime Dealers, Bill Payment Points, Airlines, Social Media Players and Third-Party Service providers .(Dashen Bank)

Dashen Bank is governed by the Banking and Supervision proclamation No.592/2008 and other Laws, rules and regulations enacted on each line of their business and activities. Based on this regulatory universe, therefore, this framework sets out the main parameters that are banks Compliance risk management system must cover. It is presented in its broader sense and will not be limited to specific phrase or existing practices, as they could be subject to further change. (Annual Report, 2017)

This study tries to find to assess with the main variables risk management practice of dashen bank. The drive of the researcher is to identify theoretical aspect of risk management and practical implementation and to give better solution.

### **1.3 Statement of the Problem**

Risk management has become increasingly high profile in recent times, because of the global financial crisis and the number of high profile corporate failures across the world that preceded it. Also, risk management has become more important because of increasing stakeholder expectations and the ever-increasing ease of communication. As well as assisting with better decision making and improved efficiency, risk management can also contribute to the provision of greater assurance to stakeholders. This assurance has two important components. The directors of any organization need to be confident that risks

have been identified and that appropriate steps have been taken to manage risk to an appropriate level. (Hopkin, 2010)

Although underdeveloped, the banking system in Ethiopia has witnessed a significant expansion over the past few years. The National Bank of Ethiopia (NBE) believes such growth should be matched to strong risk management practices. As a result, the NBE has revised the risk management framework it issued in 2003 to all banks so as to incorporate latest developments in the area. (NBE, 2010)

Money laundering occur in any country especially those with complex financial system, countries in which there is weak anti-money laundering programs and low risk of detection are likely to be a target. As the objective of money laundering is to obtain the illegal money reverse to the individual who granted them, launderers favor to move the money through stable financial system. (Doyle, 2002)

According to Biniam (2011) reasoned that because of Ethiopia's economy is highly cash-based; there are some vulnerable institutions whose services are exploited by launderers. Banks are amongst these institutions, and they are frequently in the frontline in controlling against illicit money movements. The author argued that money laundering impairs the development of financial institutions because money laundering erodes financial institutions themselves and then would lead for corruption by criminal elements.

According to Audit report Dashen Bank , In relation to Money Laundering under invoicing, over invoicing, multiple invoicing, falsified invoicing was employed in addition to this Illegal Hawalla. The collaboration and coordination of stakeholder agencies have been low in order to prevent and suppress this action

Nevertheless, the previous risk management practice and related literature are very few in numbers and there is time gab.

Tsion Fikadesilassie (2015): Risk management practice in selected commercial banks. She investigates Ethiopian banks operating in risk focused. Endalkachew Mitku ( 2015) : has studied Risk Management and its impact on financial performance of commercial banks in Ethiopia. Qamruzzaman & Jianguo (2017): Risk management practice: A case study of the financial sector in Bandladesh. They investigate risk management practice it has a major role

on operating performance. Ciuhureanu & Baltes (2008): Study on the Risk management in banking institution. They are examine effective risk management a central issue of the bank this should be an integral part of bank management.

Therefore effective risk management has proved an essential ingredient for bank survival. The researcher of this study make an effort but no research found to show major recent risks, such as money laundry related to risk management of bank industry specially in DB. Hence, lack of research in this regard necessitated the current study which wanted to bridge the existing gap. In addition, this study is providing evidence on risk management practices of Ethiopian Banks based on case study of DB.

### **Research question**

- A. What type of risk dashen bank exposed?
- B. How can make an effective risk management practice of dashen bank?
- C. What kind of method used for risk management DB?

#### **1.4. Objectives of the Study**

##### **1.4.1. General objective**

General objective of this study assess the risk management practice of DB

##### **1.4.2. Specific objective**

- A. To determine the type of risk exposed
- B. To examine effective risk management practice
- C. To examine the methods adopted by the dashen bank for risk management.

#### **1.5. Significant of the Study**

As a result, this research would drive the attention to the importance of a high level of awareness to risk management problems. In addition, the findings of this study explain to dashen bank on how to apply effective risk management practices. Additionally, the study has the following significances: It would support bank manager, stakeholders better understanding about the nature of risk management and prepare for future that means taking helpful actions about possible risk. The banks learn ways of solving problem to apply an effective risk management practice. The study measure the magnitude of an effective risk management. It is used a reference material further study on the similar topic

### **1.6 Scope of the Study**

The study was focused on risk management practice of commercial bank of Ethiopia based on the case study of dashen Bank Share Company. The study population constituted of head office of Dashen Bank and operational in year 2014 E.C. The aim of the research to assesses the risk management practice of DB. The explanatory variables are delimited to money laundry, credit risk, liquidity risk and market risk. The researcher used the above risk type because lack of recent previous studies associated with risk management which as followed for further analysis.

### **1.7. Organization of the Paper**

This study divided into five chapters. The first Chapter deals with the introduction part, which contains background of the study, background of the company, statement of the problem, objectives of the study, research questions, significance of the study, scope of the study and organization of the research paper. The second chapter shows a review of the literature, with a focus on the theoretical, empirical literature and conceptual framework. Whereas, the third chapter introduces the research methodology, which includes, introduction, Research design, data collection and Census method. The fourth chapter presents the data analysis & results discussions of the study. Finally, the fifth chapter presents the conclusions and recommendations based on the study findings.

## **CHAPTER TWO**

### **2. Review of Related Literature**

This chapter looks for different theoretical aspects of risk and the risk management practices adopted by Dashen bank to manage such risk. Further empirical studies done on this area and their findings. Finally there is conceptual framework.

#### **2.1. Review of Theoretical Literature**

##### **2.1.1 Defining Risk**

The Oxford English Dictionary definition of risk is as follows: ‘a chance or possibility of danger, loss, injury or other adverse consequences’ and the definition of at risk is ‘exposed to danger’. In this context, risk is used to signify negative consequences. However, taking a risk can also result in a positive outcome. A third possibility is that risk is related to uncertainty of outcome.

(Hopkin, 2010)

Risk in an organizational context is usually defined as anything that can impact the fulfillment of corporate objectives. However, corporate objectives are usually not fully stated by most organizations. Where the objectives have been established, they tend to be stated as internal, annual, change objectives. This is particularly true of the personal objectives set for members of staff in the organization, where objectives usually refer to change or developments, rather than the continuing or routine operations of the organization.(Hopkin, 2010)

Risks are uncertainties resulting in adverse variations of profitability or in losses. In the banking universe, there are a large number of risks. Most are well known. However, there has been a significant extension of focus, from the traditional qualitative risk assessment towards the quantitative management of risks, due to both evolving risk practices and strong regulatory incentives. The different risks need careful definition to provide sound bases serving for quantitative measures of risk. As a result, risk definitions have gained precision over the years. The regulations, imposing capital charges against all risks, greatly helped the process. The underlying philosophy of capital requirement is to bring capital in line with risks. This

philosophy implies modeling the value of risk. The foundation of such risk measures is in terms of potential losses. The capital charge is a quantitative value. Under regulatory treatment, it follows regulatory rules applying to all players. Under an economic view, it implies modeling potential losses from each source of risk, which turns out to be the ‘economic’ capital ‘adequate’ to risk. Most of the book explains how to assign economic values to risks. Therefore, the universal need to value risks, which are intangible and invisible, requires that risks be well-defined. Risk definitions serve as the starting point for both regulatory and economic treatments of risks. (Bessis, 2002)

### **2.1.2 Nature of risk**

Recent events in the world have brought risk into higher profile. Terrorism, extreme weather events and the global financial crisis represent the extreme risks that are facing society and commerce. These extreme risks exist in addition to the daily, somewhat more mundane risks mentioned above. Evaluating the range of risk responses available and deciding the most appropriate response in each case is at the heart of risk management. Responding to risks should produce benefits for us as individuals, as well as for the organizations where we work and/or are employed. Within our personal and domestic lives, many of the responses to risk are automatic. Our ways of avoiding fire and road traffic accidents are based on well-established and automatic responses. Fire and accident are the types of risks that can only have negative outcomes and they are often referred to as hazard risks. (Hopkin, 2010)

### **2.1.3. Risk Management**

Organizations face a very wide range of risks that can impact the outcome of their operations. The desired overall aim may be stated as a mission or a set of corporate objectives. The events that can impact an organization may inhibit what it is seeking to achieve (hazard risks), enhance that aim (opportunity risks), or create uncertainty about the outcomes (control risks). Risk management needs to offer an integrated approach to the evaluation, control and monitoring of these three types of risk. This book examines the key components of risk management and how it can be applied. Examples are provided that demonstrate the benefits of risk management to organizations in both the public and private sectors. Risk management also has an important part

to play in the success of not-for-profit organizations such as charities and (for example) clubs and other membership bodies. . (Hopkin, 2010)

#### **2.1.4 Effective risk management**

Key to delivering effective risk management is ensuring our people have a good understanding of the Group's strategy and our policies, procedures, values and expected performance. We have a structured internal communications programmer that provides employees with a clear definition of the Group's purpose and goals, accountabilities and the scope of permitted activities for each business unit, as well as individual line managers and other employees. We operate a balanced scorecard approach that is known within the Group as our Steering Wheel. This unites the Group's resources around our customers, people, operations, and community and finance. The scorecard operates at every level within the Group, from ground level business units, through to country level operations. It enables the business to be operated and monitored on a balanced basis with due regard for all stakeholders. (Hopkin, 2010)

#### **2.1.5 Risk in banking sector**

In view of growing complexity of banks business and dynamic operating environment risk management has become very significance. Every bank would have its own financial strength. Every Bank understands its risk appetite. So risk appetite is the capacity of a bank to absorb risk and depending on its size and capability. A bank may have different capabilities to absorb risk. When a bank starts operation it would be having variety of risks like credit risk market risk, liquidity risk and legal risk. The Bank typically would have three major areas through which risks will come to a bank. One area is the assets of Bank balance sheet will have certain risk, second area is liability side of bank balance sheet will have certain risk and third area off balance sheet items and there are certain products like derivatives, Bank Guarantee, Bank acceptances. In case of thus product the bank will have such kind of risk. When bank gets acquired such type of risks it should focus on all such areas. ( Boora, 2016)

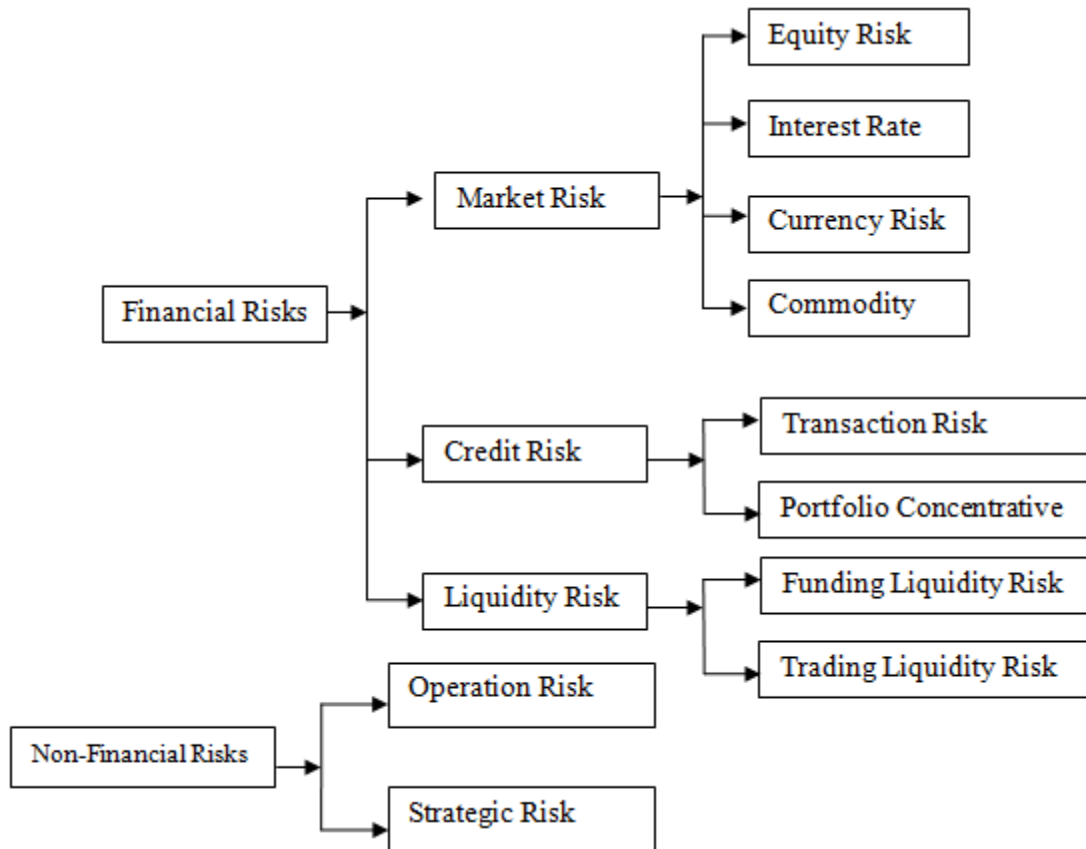


Fig. 1 Risk in Banking

Source: ( Boora, 2016)

### 1. Credit Risk

Credit risk is the first of all risks in terms of importance. Default risk, a major source of loss, is the risk that customers default, meaning that they fail to comply with their obligations to service debt. Default triggers a total or partial loss of any amount lent to the counterparty. Credit risk is also the risk of a decline in the credit standing of an obligor of the issuer of a bond or stock. Such deterioration does not imply default, but it does imply that the probability of default increases. In the market universe, a deterioration of the credit standing of a borrower does materialize into a loss because it triggers an upward move of the required market yield to compensate the higher risk and triggers a value decline. ‘Issuer’ risk designates the obligors’ credit risk, to make it distinct from the specific risk of a particular issue, among several of the same issuer, depending

on the nature of the instrument and its credit mitigates (seniority level and guarantees). The view of credit risk differs for the banking portfolio and the trading portfolio. (Bessis, 2002)

Credit risk is an issue only when the position is an asset, i.e., when it has a positive replacement value. In that situation, if the counterparty defaults, the firm loses either all of the market value of the position or, more commonly, the part of the value that it cannot recover following the credit event. (The value it is likely to recover is called the recovery value, or the recovery rate when it is expressed as a percentage; the amount it is expected to lose is called the loss given default.) (Crouhy et al.,2006)

## **2. Interest Rate Risk**

The interest rate risk is the risk of a decline in earnings due to the movements of interest rates. Most of the items of banks' balance sheets generate revenues and costs that are interest rate-driven. Since interest rates are unstable, so are earnings. Anyone who lends or borrows is subject to interest rate risk. The lender earning a variable rate has the risk of seeing revenues reduced by a decline in interest rates. The borrower paying a variable rate bears higher costs when interest rates increase. Both positions are risky since they generate revenues or costs indexed to market rates. The other side of the coin is that interest rate exposure generates chances of gains as well. (Bessis, 2002)

Banks should also have an adequate system of internal controls to oversee the interest rate risk management process. A fundamental component of such a system is a regular, independent review and evaluation to ensure the system's effectiveness and, when appropriate, to recommend revisions or enhancements. Supervisory authorities often require the results of such reviews. (Greuning & Bratanovioc, 2009)

## **3. Market Risk**

Market risk is the risk that changes in financial market prices and rates will reduce the dollar value of a security or a portfolio. Price risk for fixed income products can be decomposed into a general market-risk component (the risk that the market as a whole will fall in value) and a specific market-risk component, unique to the particular financial transaction under consideration that also reflects the credit risk hidden in the instrument. In trading activities, risk arises both from open (unhedged) positions and from imperfect correlations between market positions that are intended to offset one another. (Crouhy et al., 2006)

#### **4. Foreign Exchange Risk**

Foreign exchange risk arises from open or imperfectly hedged positions in a particular currency. These positions may arise as a natural consequence of business operations, rather than from any conscious desire to take a trading position in a currency. Foreign exchange volatility can sweep away the return from expensive cross-border investments and at the same time place a firm at a competitive disadvantage in relation to its foreign competitors. <sup>1</sup> It may also generate huge operating losses and, through the uncertainty it causes, inhibit investment. The major drivers of foreign exchange risk are imperfect correlations in the movement of currency prices and fluctuations in international interest rates. Although it is important to acknowledge exchange rates as a distinct element of market risk, the valuation of foreign exchange transactions requires knowledge of the behavior of domestic and foreign interest rates, as well as of spot exchange rates. (Crouhy et al., 2006)

#### **5. Operational Risk**

Operational risks are those of malfunctions of the information system, reporting systems, internal risk-monitoring rules and internal procedures designed to take timely corrective actions, or the compliance with internal risk policy rules. The New Basel Accord of January 2001 defines operational risk as ‘the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events’. In the absence of efficient tracking and reporting of risks, some important risks remain ignored, do not trigger any corrective action and can result in disastrous consequences. In essence, operational risk is an ‘event risk’. There is a wide range of events potentially triggering losses<sup>6</sup>. The very first step for addressing operational risk is to set up a common classification of events that should serve as a receptacle for data gathering processes on event frequencies and costs. Such taxonomy is still flexible and industry standards will emerge in the future. (Bessis, 2002)

#### **6. Liquidity Risk**

Asset liquidity risk, often simply called liquidity risk, is the risk that an institution will not be able to execute a transaction at the prevailing market price because there is, temporarily, no appetite for the deal on the other side of the market. If the transaction cannot be postponed, its execution may lead to a substantial loss on the position. This risk is generally very hard to

quantify. (In current implementations of the market value-at-risk, or VaR, approach, liquidity risk is accounted for only in the sense that one of the parameters of a VaR model is the period of time, or holding period, thought necessary to liquidate the relevant positions.) Asset liquidity risk may reduce an institution's ability to manage and hedge market risk as well as its capacity to satisfy any shortfall in funding by liquidating its assets. (Crouhy et al.,2006)

## **7. Money Laundry**

Money laundering is the act of giving dirty money a legitimate appearance. According to the United Nations (UN) 2000 Convention (UNODC, 2004), money laundering is the process of converting or transferring the asset with knowledge of its being derived from a criminal source, with an aim to conceal that criminal source or aid the criminal involved in committing the crime. Efforts are made towards disguising the nature and origin of the illicit income generated and integrating it into the financial system without drawing attention from tax authorities or law enforcement agencies (Compin, 2008). Apart from a range of underground activities such as drug trafficking, cybercrime, corruption and so forth, there are quasi-legal activities involving the concealment of income from public authorities. Such acts produce the shadow economy (Schneider and Windischbauer, 2008, Schneider, 2010). They also contribute to money laundering. According to Buchanan (2004), the process of money laundering comprises three stages, namely placement, layering and integration.(Tiwari et al.,2020)

### **2.1.6 The Risk Management in banking sector**

In the presence of globalization, current situation of any organization faced unexpected situation. The company may face failure or succeed. Due to the above reason company should implement an effective risk management practice. (Vaughan,2008)

Risk management is a scientific approach to the problem of risk that has as its objective the reduction and elimination of risks facing the business firm. Risk management evolved from the field of corporate insurance buying and is now recognized as a distinct and important function for all businesses and organizations. Many business firms have highly trained individuals who specialize in dealing with pure risk.(Vaughan,2008)

Risk management in banking designates the entire set of risk management processes and models allowing banks to implement risk-based policies and practices. They cover all techniques and management tools required for measuring, monitoring and controlling risks. The spectrum of models and processes extends to all risks: credit risk, market risk, interest rate risk, liquidity risk and operational risk, to mention only major areas. Broadly speaking, risk designates any uncertainty that might trigger losses. Risk-based policies and practices have a common goal: enhancing the risk–return profile of the bank portfolio. The innovation in this area is the gradual extension of new quantified risk measures to all categories of risks, providing new views on risks, in addition to qualitative indicators of risks. (Bessis, 2002)

### **2.1.7 Categories of risk management**

Merton (1989) argues that the bundling and unbundling of risks identifies a key element within the integration of a franchise pertaining to the financial institutions. However, the firm is not subject to all the risks identified within the market as some of the risks may be traded and consequently transferred while other may be eradicated from the entire process. This necessitates the integration of a process that enhances the defragmentation of potential risks within the activities and assets into three main subgroups in relation to their nature to enhance the adoption and consequent mitigation of the viable strategies. (Mohammed, 2016)

The integration of strategies and processes that enhance the avoidance of risk limit the identification of several risks by the banks that are not essential to the provided services. This is realized through the integration of several services including underwriting standards, diversification, hedging, reinsurance and due diligence investigation aimed at reducing the possible chances of incurring high losses through the elimination of the risks deemed unnecessary to the bank's purpose. Once this is achieved, the managers seek to minimize the remaining systematic and operational risks together with the communication of the identified risk levels and elimination processes to the stakeholders. This is necessary as the measures integrated to minimize the identified risks limit the possibility of further risks, but reduce the profitability levels experienced by the business. In the event that a risk does not hold any value-added properties or any levels of competitive advantage attributed to their absorption and consumption, the risk may be transferred by the bank to other parties capable of managing the risk. (Mohammed, 2016)

### **2.1.8 Risk Management in Banks: A Rational Perspective**

The functioning of the bank system places emphasis upon the maximization of the expected profit through the analysis of the potential risks pertaining to the process. This enhances the integration of an active risk management process to enhance the achievement of the projected and desired results. The integration of the risk management process incorporates an operation system that seeks to regulate the volatility level identified in relation to profit in an effort to limit the lowering of shareholder's wealth. Stulz (1984), Smith et al (1990) and Froot et al (1993) argue that managers should integrate highly active risk management processes within the organisations to enhance effective identification of the projected profits. Oldfield and Santomero (1995) present four main rationales pertaining to risk management. This includes manager's self-interest relating to the firm, which is influenced by their desire to protect their position and wealth invested within the firm. (Mohammed, 2016)

This is influenced by the managers' low capacity to diversify their investments within the firms thus limiting their identified level of risk. This necessitates their desire to maintain the stability levels experienced relating to the firm's earnings as opposed to high levels of volatility as the maintenance of high levels of stability influences the identification of high utility levels. The second rationale refers to the desire to maintain lower tax burden as this enhances the identification of reduced volatility relating to the profits through the integration of risk management. Through the integration of progressive tax schedules, the expected tax burden is reduced upon the identification of higher income. This enhances the pursuing of activities that initiate a reduction within the volatility of the reported taxable income in an effort to enhance the shareholder's value. (Mohammed, 2016)

### **2.1.9. Risk management process**

The ultimate goal of risk management is to facilitate a consistent implementation of both risks and business policies. Classical risk practices consist of setting risk limits while ensuring that business remains profitable. Modern best practices consist of setting risk limits based on economic measures of risk while ensuring the best risk-adjusted performances. In both cases, the goal remains to enhance the risk–return profile of transactions and of the bank's portfolios. Nevertheless, new best practices are more 'risk-sensitive' through quantification of risks. (Bessis, 2002)

The risk management process can be divided into a series of individual steps that must be accomplished in managing risks. Identifying these individual steps helps guarantee that important phases in the process will not be overlooked. Although it is useful for the purpose of analysis to discuss each of these steps separately, it should be understood that in actual practice the steps tend to merge with one another. (Bessis, 2002)

The six steps in the risk management process are:

1. Determination of objectives
2. Identification of risks
3. Evaluation of risks
4. Consideration of alternatives and selection of the risk treatment device
5. Implementation of the decision
6. Evaluation and review

### **Determination of Objectives**

The first step in the risk management process is the determination of the objectives of the risk management program: deciding precisely what it is that the organization would like its risk management program to do. Despite its importance, determining the objectives of the program is the step in the risk management process that is most likely to be overlooked. As a consequence, the risk management efforts of many firms are fragmented and inconsistent. Many of the defects in risk management programs stem from an ambiguity regarding the objectives of the program. (Bessis, 2002)

### **Identifying Risk Exposures**

Obviously, before anything can be done about the risks an organization faces, someone must be aware of them. In one way or another, someone must dig into the operations of the company and discover the risks to which the firm is exposed. In one sense, risk identification is the most difficult step in the risk management process. It is difficult because it is a continual process and because it is virtually impossible to know when it has been done completely. (Bessis, 2002)

### **Evaluating Risks**

Once the risks have been identified, the risk manager must evaluate them. Evaluation implies some ranking in terms of importance, and ranking suggests measuring some aspect of the factors to be ranked. In the case of loss exposures, two facets must be considered: the possible severity of loss, and the possible frequency or probability of loss. Evaluation involves measuring the potential size of the loss and the probability that the loss is likely to occur. (Bessis, 2002)

### **Consideration of Alternatives and Selection of the Risk Treatment Device**

Once the risks have been identified and evaluated, the next step is consideration of the approaches that may be used to deal with risks and the selection of the technique that should be used for each one. (Bessis, 2002)

### **Implementation of the Decision**

The decision is made to retain a risk. This may be accomplished with or without a reserve and with or without a fund. If the plan is to include the accumulation of a fund, proper administrative procedure must be set up to implement the decision. If loss prevention is selected to deal with a particular risk, the proper loss-prevention program must be designed and implemented. The decision to transfer the risk through insurance must be followed by the selection of an insurer, negotiations, and placement of the insurance. (Bessis, 2002)

### **Evaluation and Review**

Evaluation and review must be included in the program for two reasons. First, the risk management process does not take place in a vacuum. Things change; new risks arise and old risks disappear. The techniques that were appropriate last year may not be the most advisable this year, and constant attention is required. Second, mistakes are sometimes made. Evaluation and review of the risk management program permits the risk manager to review decisions and discover mistakes, ideally before they become costly. (Vaughan, 2008)

#### **2.1.10. Benefits of risk management.**

There are a range of benefits arising from successful implementation of risk management. These benefits are summarized in this book as compliance, assurance, decisions and efficiency/effectiveness/efficacy (CADE3). Compliance refers to risk management activities designed to

ensure that an organization complies with legal and regulatory obligations. The board of an organization will require assurance that significant risks have been identified and appropriate controls put in place. In order to ensure that correct business decisions are taken, the organization should undertake risk management activities that provide additional structured information to assist with business decision making. Finally, a key benefit from risk management is to enhance the efficiency of operations within the organization. Risk management should provide more than assistance with the efficiency of operations. It should also help ensure that business processes (including process enhancements by way of projects and other change initiatives) are effective and that the selected strategy is efficacious, in that it is capable of delivering exactly what is required. (Hopkin, 2010)

#### **2.1.11. Techniques of risk management**

An organization will map all of re-payments of deposit in different time buckets and would also map loan recovery or loan collection. It is an interest rate risk management collection that based on the balance sheet when focus on the potential variability of net interest income over specific time intervals. In this method a reprising schedule that distributes interest sensitive assets liabilities and off balance sheet positions into time bands according to their maturity in (fixed rates) or time remaining to their next re pricing if floating rate is prepared. After choosing the time intervals, assets and liabilities are grouped into these buckets accordingly to maturity. The assets and liabilities that can be re-priced are called rate sensitive assets (RSAS) and rate sensitive liabilities (RSLs) respectively,  $GAP = RSAs - RSLs$  ( Boora, 2016)

## **2.2. Empirical Review**

Studies on risk management practices in different terrestrial and economic levels were conducted by different author's using dissimilar research methodologies. A review of a few literatures occurs below.

According to (Acma & Jianguo, 2017), conducted a research on risk management practice: A case study of the financial sector in Bangladesh. Objectives of the study, to investigate the awareness about risk management practices with in the financial sector of Bangladesh. To achieve these objectives, the researchers collected data from primary sources. Finally, the study result revealed that there is strong positive relationship among risk management variables as well as indicating positive impact on entire risk management process in addition to this; there is no

significant difference in regards to risk management practice between banks and non-bank financial institutions of Bangladesh.

As noted by (Kumah & Sare, 2013), examine risk management practices among commercial Banks in Ghana. The study used a Cross-sectional research design and Data analysis tools multiple regression models. So the results show a significant difference among commercial banks in the practice of risk identification, understanding risk and in risk monitoring and control except risk assessment and analysis. Finally the findings of the study that difference exist in the risk management practices across the banks.

As per (Alam & Masukujjaman, 2011), the researcher conduct risk management practices: A Critical Diagnosis of Some Selected Commercial Banks in Bangladesh, the study reveals that credit risk, market risk and operational risk are the major risks to the bankers which are managed through three layers of management system. The Board of Directors performs the responsibility of the main risk oversight, the Executive Committee monitors risk and the Audit Committee oversees all the activities of banking operations. In the context of opinions regarding use of risk management techniques, it is found that internal rating system and risk adjusted rate of return on capital are relatively more important techniques used by banks.

According to (Adeley et al., 2004), seeks to identify risk management practices in IS outsourcing: an investigation into commercial banks in Nigeria, the findings revealed that managers of commercial banks understand the nature of IS outsourcing and that they all agreed that adopting risk management practices is important. Nevertheless, the situation is critical. A significant proportion of the commercial banks have no documented and structured outsourcing strategy or policy; consequently no programmer or procedural guidance is available at any level. The study also discovered that contrary to practice in developed countries, the regulatory authorities in Nigeria have not formulated substantive guidelines or procedural rules to be adopted nationally by commercial banks.

According to (Wanjohi et.al, 2017), the effect of financial risk management on the financial performance of commercial banks in kenya, The study found out that majority of the Kenyan

banks were practicing good financial risk management and as a result the financial risk management practices mentioned herein have a positive correlation to the financial performance of commercial banks in Kenya.

As noted by (Amsale, 2019), examine risk management practice in the case of commercial bank of Ethiopia. The main objective of this study was to assess Risk management practices of the commercial bank of Ethiopia. The study used qualitative and quantitative in its research methodology design. This paper used both primary and secondary data . The primary data was collected through the interviews with eligible employees of the bank. This paper investigates the bank has appropriate Reputational risk management practice because the bank is a government bank so that support the societies and the growth and transformation plan. The other banks aim is making profit but commercial bank of Ethiopia is service provider so those activities creates good image in the society

As per (Ariam,2021), the researcher conduct, assessment of risk management Practice in ethiopia banking sectors The objective of this is look into risk management activities of a few ethiopian commercial banks. The research adopting a qualitative and quantitative methodology and purposefully sampling technique. The study concludes that ethiopian banks are indeed risk-averse.

As per (Tsion, 2015), risk management practice of ethiopian commercial banks. The study was used Likert scale and SPSS for data analysis, the primary data was collected through the interviews and the soundary data from document and manual. The findings of this paper suggest that banks operating in Ethiopia are risk-focused.

According to (Muhammad et al., 2018), the study revealed, understating risk management practice in commercial Banks of Ethiopia: The Case of Emerging Market. Adopting a qualitative multivariable linear regression method, the primary data was collected through the interviews. The results suggest that understanding risk and risk management (URM), risk assessment and analysis (RAA), risk identification (RI), risk monitoring (RM) and credit risk analysis (CRA) have positive significant impact on risk management practices (RMP).

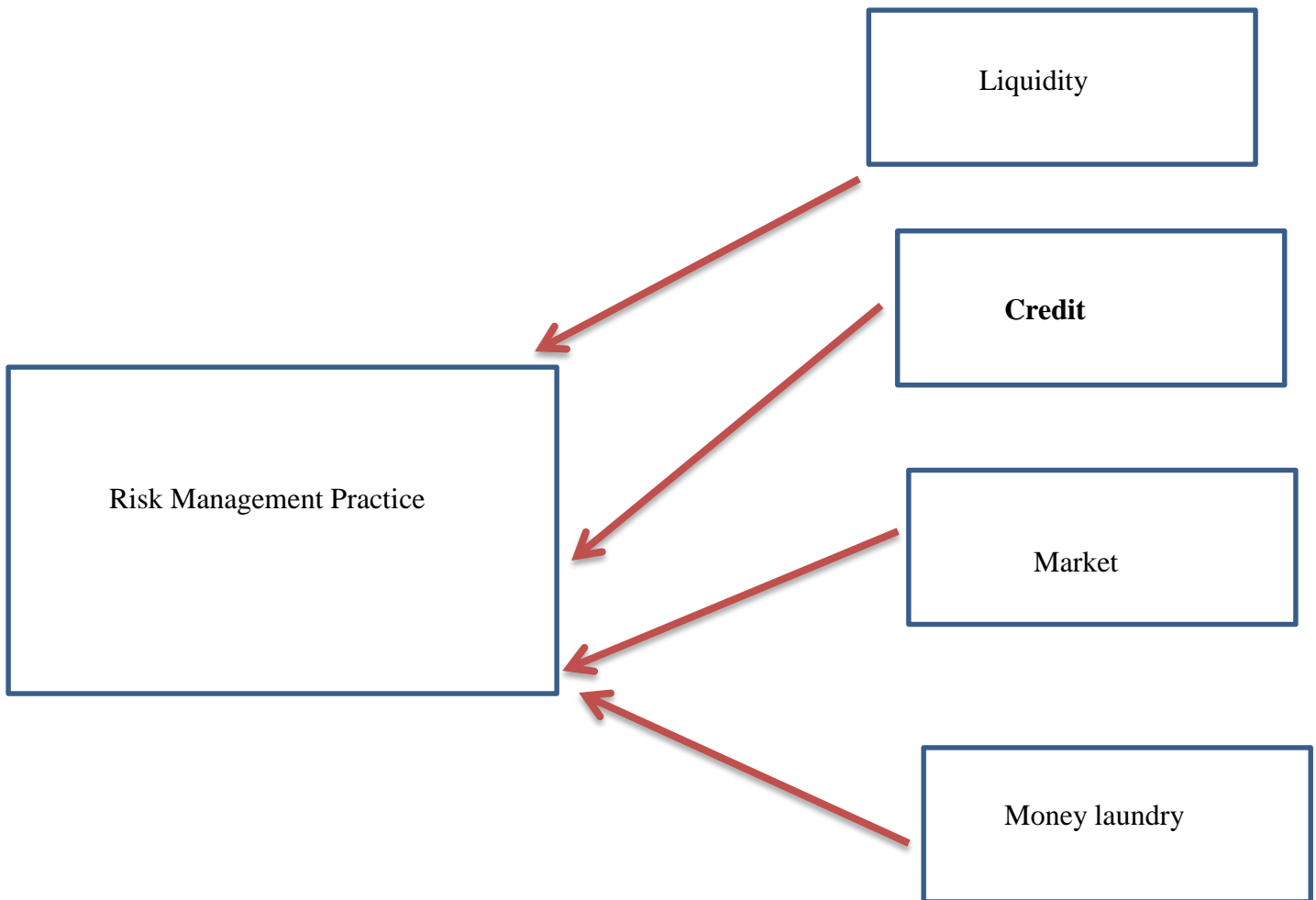
As per (Maouloud et.al ,2017), the researcher conduct risk management and performance of islamic banks: Using the Income of Mudharaba and Musharaka as a Moderator the results show

that the income of Sharing of Losses and Profits (PLS) products (mudharaba and musharaka) has a moderating effect particularly on the relationships between performance and liquidity risk, and operational risk. However, it has no moderating effect on the relationship between performance and market risk.

According to (Ogunleye & Ashogbon, 2014), the study review risk management practices and financial performance: Evidence from the Nigerian Deposit Money Banks (DMBS), the finding of the study, Nigerian Deposit Money Banks financial performance is heavily determined by risk management practices. Therefore, it our suggestion that the CBN and other regulators should endeavor to enforce risk identification, assessment, measurement and control mechanism in line with best global practices in other improve on commercial banks' performances and so as to avoid financial crises

### 2.3. Conceptual Framework

A conceptual framework defines the important variables for the research and shows the relationship between variable. The first step of conceptual paper collecting data then it represent a visual format, in addition to this framework expected to show a cause and effect relationship. It is generally developed based on a literature review existing research and the topic.



Source: Own developed based on the our variables

Fig 2 conceptual frame work

## **CHAPTER THREE**

### **3. Research Methodology**

#### **3.1. Introduction**

The methodology section is one of the most important parts of a research. It must provide sufficient information. This chapter would cover research design, target population, Census method, data collection methods and data analysis method is also described.

#### **3.2 Research Design**

The formidable problem that follows the task of defining the research problem is the preparation of the design of the research project, popularly known as the “research design”. Decisions regarding what, where, when, how much, by what means concerning an inquiry or a research study constitute a research design. “A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. (Kothari, 2004)

After having those concepts on the research topic, questionnaires prepared data collected using those questionnaire instruments. After returning from the field quantitative data processing (editing and coding questioners) have been made using statistical technique SPSS. The coded primary data has been exported to and analyzed. Descriptive method of data analysis were used. Descriptive statistics such as average, mean, standard deviation, percentage, ratio and tables have been used.

### **3.3. Target Population**

Successful statistical practice is based on focused problem definition. In sampling, this includes defining the population from which our sample is drawn. A population can be defined as including all people or items with the characteristic one wish to understand. Because there is very rarely enough time or money to gather information from everyone or everything in a population, the goal becomes finding a representative sample (or subset) of that population. (Kumar, 2011)

Target population for this research is all risk management department employee of Dashen bank share Company in Addis Abeba. The total population size is 100 risk management staff working in Head office. Given the population size which is small, no sample was drawn rather the whole population would be subject to this study. The questioner would pick from physical location.

### **3.4 Data collection**

The task of data collection begins after a research problem has been defined and research design/ plan chalked out. While deciding about the method of data collection to be used for the study, the researcher should keep in mind two types of data viz., primary and secondary. The primary data are those which are collected afresh and for the first time, and thus happen to be original in character. The secondary data, on the other hand, are those which have already been collected by someone else and which have already been passed through the statistical process. The methods of collecting primary and secondary data differ since primary data are to be originally collected, while in case of secondary data the nature of data collection work is merely that of compilation. (Kothari, 2004)

The researcher conducts for both primary source. The primary and secondary source data was collected from 100 risk department staff of head office. Data was gathered through questionnaire both closed and open-ended questions. The objective of primary data is to evaluate the risk management practices of dashen bank. And secondary data was gathered from NBE manual

related to risk management, annual reports of banks, web pages, and dashen banks risk management manual other important related literature.

### **3.5 Census Method**

The Census Method is also called as a Complete Enumeration Survey Method wherein each and every item in the universe is selected for the data collection. The universe might constitute a particular place, a group of people or any specific locality which is the complete set of items and which is of interest in any particular situation. One of the major advantages of census method is the accuracy as each and every unit of the population is studied before drawing any conclusions of the research. When more and more data are collected the degree of correctness of the information also increases. Also, the results based on this method are less biased. (Kothari, 2004)

The researcher would apply census method. The reason why the researchers choose this method is the study concentrate in a particular place or group of people so the target population of researcher would Risk Management department of dashen bank in HO. It is trustworthy method of finding information, which means it is accurate for each and every unit of the population.

### **3.6 Data analysis**

Data analysis is most important part of all research. After the data have been collected, the researcher turns to the task of analyzing them. The analysis of data requires a number of closely related operations such as establishment of categories, the application of these categories to raw data through coding, tabulation and then drawing statistical inferences. The unwieldy data should necessarily be condensed into a few manageable groups and tables for further analysis. Thus, researcher should classify the raw data into some purposeful and usable categories. Coding operation is usually done at this stage through which the categories of data are transformed into symbols that may be tabulated and counted. Editing is the procedure that improves the quality of the data for coding. With coding the stage is ready for tabulation. Tabulation is a part of the technical procedure wherein the classified data are put in the form of tables. (Kothari, 2004)

The researcher used quantitative method .The data has collected using questionnaire. The results of the questionnaire were analyzed with descriptive analysis by using SPSS software. And where

the data has interpreting and present by using table, percentage, graph because it helps to explain mean, standard deviation.

### **3.7 Reliability and Validity of the Study**

Reliability is concerned with the question of whether or not a result is stable Kothari, C. R. (2004). The idea of reliability is important for measuring. The research method carefully explained throughout this research. The sample selection based upon non-probability. The people are selected because of their positions of responsibility in this area. The respondents are free to answer the questionnaire without stress, which would have negative effects upon the reliability of this study. This study is possible to reproduce with consistent results.

Validity is concerned with “the integrity of the conclusions that are generated from a piece of research” (Kothari, C. R. (2004). The process of survey, the questionnaire sent to the employees of dashen bank to ensure the questionnaire is understandable and acceptable. In addition, the empirical data analyzed with SPSS for windows, which is possibly the most widely used computer software for the analysis of quantitative data. Therefore, this research can be safely said to be highly valid.

Cronbach’s alpha is used to estimate how much variation in scores of different variables is attributable to chance or random errors. Cronbach’s alpha values were computed for multi item scales for individual factors, between the dimensions and for the whole questionnaire. The Cronbach’s alpha was used as measure of reliability. In this model the alpha coefficient ranges from 0 to 1. The higher the score, the more reliable scale is, Ranjit, K. (2011) noted that a score of 0.7 is acceptable reliability coefficient. The following table shows the reliability statistics of the Cronbach's alpha values computed.

## CHAPTER FOUR

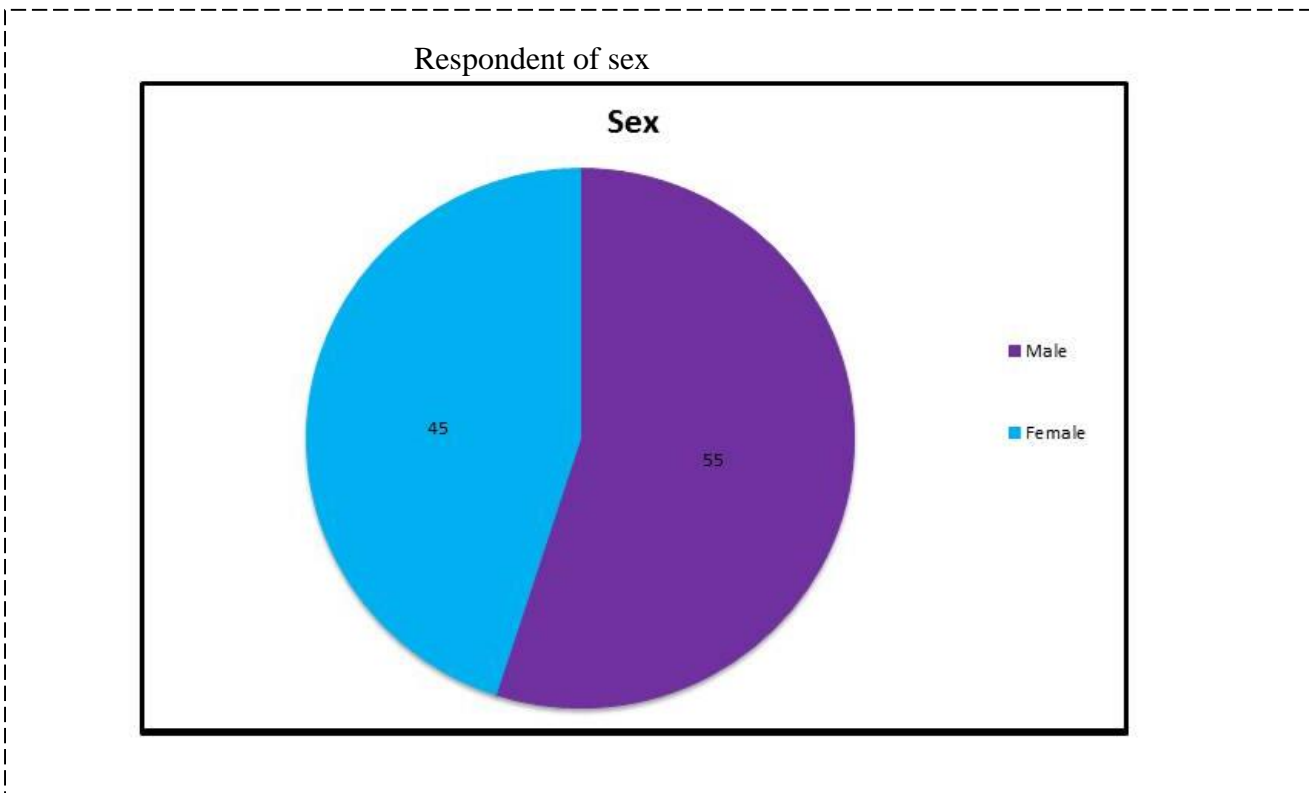
### 4. Data analysis and Interpretation

This chapter deals with data analysis and interpretation based on the research objectives. All the questionnaires that were fielded are returned. These questionnaires are related to risk management practice in dashen bank . Following the introduction, validity and reliability analysis, data collection process and respondents profile and detail research findings are discussed.

#### 4.1. Background of the Respondents

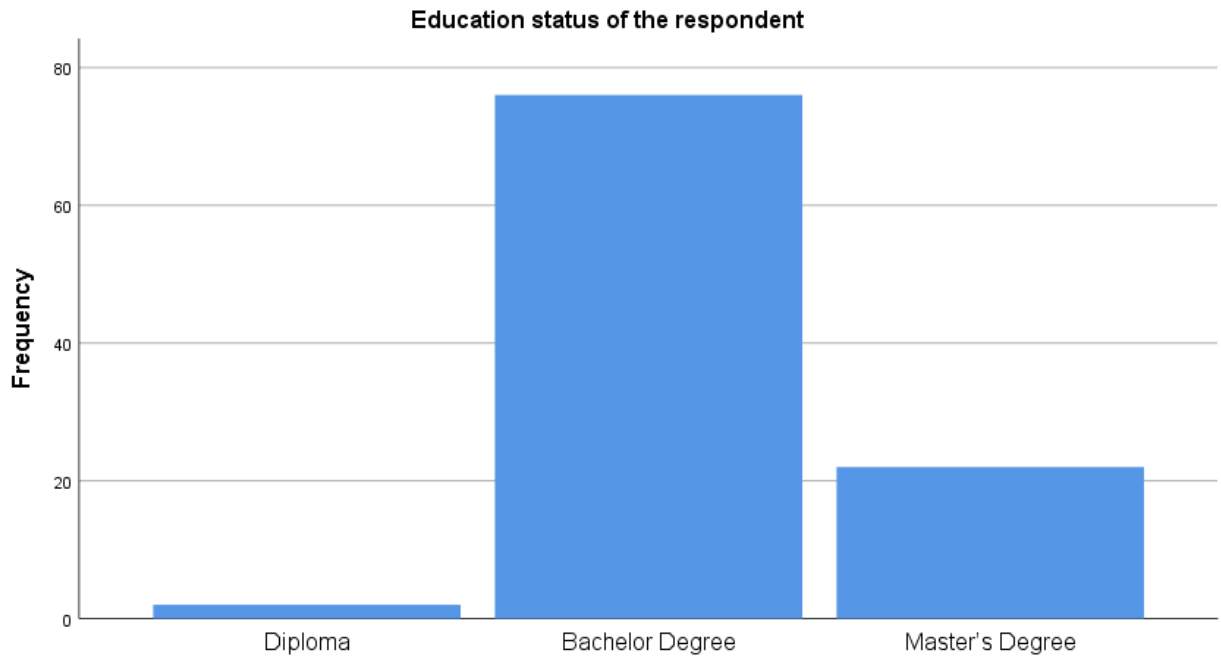
The demographic information of respondents is analyzed. These include the educational background, work experience, and educational qualification of respondents. The results of this survey processed using the SPSS software. There were a total of 100 respondents, of these, 55 (55%) were male and 45 (45%) were female.

**Figure 3 Distribution of Gender**



**Source: Survey data, SPSS output,2023**

The next background information of the respondents is as it is discussed on the above paragraphs, with regard to educational qualification and field of study



**Source: Survey data, SPSS output, 2023**

**Fig 4 Educational statute**

As shown from the above graph majority of the respondents have a good level of educational qualification that is BA which enables the respondents have an idea of the importance risk management. Moreover, majority of the respondents studied the field related to business, which enables them to understand the importance of effective risk management in banks.

The other background information of the respondents is years of experience in risk management department as follow. In terms of years of service, 28 % of the respondents have 1-5 years .45% of them have risk management between 6 year and 10 years and the rest 27 % Of the participants have experience above ten years, we realize that all risk management staff have sufficient experience in the risk management.

**Table 1: Experience of the respondent**

Experience of the respondent					
		Frequency	Percent	Valid Percent	Cumulative Percent
	1- 5 years	28	28.0	28.0	28.0
	6-10 years	45	45.0	45.0	73.0
	above 10 years	27	27.0	27.0	100.0
	Total	100	100.0	100.0	

**Source: Survey data, SPSS output,2023**

#### 4.2 Bank Risk exposure

Table 2 summaries the result of the various types of risks as ranked by risk management employees within the Dashen bank risk. The results indicate participating in the survey, the order of importance for risk exposure is as follows from the below table:

**Table 2: Risk exposure**

	Rank intemrs of frequency	No Respondent	Percent
Credit risk	1 <sup>st</sup>	38	38.0
Market Risk	2 <sup>nd</sup>	30	30.0
Interest Risk	3 <sup>rd</sup>	15	15
Money Laundry	4 <sup>th</sup>	10	10
Liquidity Risk (LR	5 <sup>th</sup>	7	7
Total		100	100.0

**Source: Survey data, SPSS output**

Out of total population 38% of respondent ranked credit risk which is the first important of risk exposure and then the second important risk 30% Market risk. Interest risk ranked 15% of the population and the rest Money Laundry and Liquidity risk 10% and 7% respectively.

According to findings it is indicated that banks highly exposed in a credit risk when we are comparing from others risk. In our study the researcher use unique one variable the previous risk management thesis not used. That means money laundry risk, even the employee of the bank they didn't have enough knowledge about this risk

Interest rate risk is the vulnerability of current or future earnings and capital to interest rate changes. Fluctuations in interest rates affect earnings by altering interest-sensitive income and expenses. Interest rate changes also affect capital by changing the net present value (NPV) of future cash flows and the cash flows themselves.(Dashen Bank)

### 4.3 Risk Identification

Data collected from risk management staff used to measure the magnitude to which the banks motivated on risk identification. Risk identification is very important issue in the risk management process. Table 6 shows the respondents response in related to risk identification process of banks.

**Table 3: Risk Identification**

		Freq.	Percent	Mean	SD
The bank carries out a regular identification of its risks exposure connecting with declared aims and objectives	Strongly Disagree	27	0.27	2.29	1.13
	Disagree	37	0.37		
	Neutral	22	0.22		
	Agree	8	0.08		
	Strongly Agree	6	0.06		
		100	100%		
The bank discovers it difficult to identify its main risk exposure	Strongly Disagree	26	0.26	2.42	1.23
	Disagree	36	0.36		
	Neutral	15	0.15		
	Agree	16	0.16		
	Strongly Agree	7	0.07		
		100	100%		
The bank is aware of other banks risk exposure	Strongly Disagree	27	0.27	2.28	1.15
	Disagree	40	0.40		
	Neutral	17	0.17		
	Agree	10	0.10		
	Strongly Agree	6	0.06		
		100	100%		
The bank has established procedures for the efficient identification risk exposure	Strongly Disagree	13	0.13	3.03	1.29
	Disagree	25	0.25		
	Neutral	25	0.25		
	Agree	20	0.20		
	Strongly Agree	17	0.17		
		100	100%		
Over all					

**Source: Survey data, SPSS output, 2023**

The above table shows that out of the total population 37% of the respondents disagree with a regular identification of its risks exposure connecting with declared aims and objectives the remaining being stands on strongly disagree, Neutral, Agree and strongly agree on the above statement according to response, it is self-assured to say banks generally do not properly participate in identifying risk. This important aspect of risk management process is assisted through contestant review and evaluation of the risk management techniques used in managing risk.

The above table shows that out of the total population 36% disagree with the bank discovers it difficult to identify its main risk exposure the remaining being stands on strongly disagree, Neutral, Agree and strongly agree on the above statement. That the bank did not actively engaged in identifying risk exposure factors.

The above table shows that the majority population 40% of the respondent disagrees with The bank is aware of other banks risk exposure, even if the remaining respondents being stand on neutral, strongly disagree, Agree and strongly agree on the above statement it is confident to say banks have unsatisfactory level of control over the awareness other bank risks.

The above table shows that the out of total population 25% respondents are neutral of The bank has established procedures for the efficient identification risk exposure even if the remaining respondents being stand on disagree, strongly disagree, Agree and strongly agree on the above statement. This indicates that the bank has not given enough training to concerned staff.

#### 4.4 Importance of Risk Management Practices

**Table 4 : Importance of Risk Management**

		Freq.	Percent	Mean	SD
The effective management of risk is central issue of your bank	Strongly disagree	33	0.33	1.99	0.81
	disagree	35	0.35		
	Neutral	<u>32</u>	<u>0.32</u>		
		100	100%		
The main business of your bank is to manage risk	Strongly Disagree	30	0.30	2.05	0.81
	Disagree	36	0.36		
	Neutral	<u>34</u>	<u>0.34</u>		
		100	100%		

Application of risk management techniques reduces costs or expected losses to banks	Strongly Disagree Disagree Neutral Agree Strongly Agree	7 9 14 34 <u>36</u> 100	0.07 0.09 0.14 0.34 <u>0.36</u> 100%	3.83	1.21
Managing risk is important to the bank's performance and Success of your bank	Strongly Disagree Disagree Neutral Agree Strongly Agree	6 16 13 35 <u>30</u> 100	0.06 0.16 0.13 0.35 <u>0.30</u> 100%	3.67	1.23
There is significant board and senior management Involvement in the risk management in your bank.	Strongly Disagree Disagree Neutral Agree Strongly Agree	23 34 20 17 <u>6</u> 100	0.23 0.34 0.20 0.17 <u>0.6</u> 100%	2.49	1.19
Effective risk management is one of the main objectives of your bank.	Strongly Disagree Disagree Neutral Agree Strongly Agree	25 42 20 7 <u>6</u> 100	0.25 0.42 0.20 0.07 <u>0.06</u> 100%	2.27	1.09
Over all					

**Source: Survey data, SPSS output,2023**

**In Item 1**, majority of the respondents specifically 35% of the employees disagree with the effective management of risk is central issue of your bank. The remaining are neutral, strongly disagree with the statement. It indicates that most of the respondents are leaning towards disagree. That implies effective risk management is not a central issue of our bank

**In Item 2** majority of the respondents specifically 36% of the respondents disagree with the main business of our bank is not managing risk. The remaining are strongly disagree and neutral with the statement .The bank industries have a lot of task like borrowing, deposit and different types of service.

**In Item 3**, majority of the respondents specifically 36% of the respondents strongly agree with the application of risk management techniques reduces costs or expected losses to banks. The remaining are neutral, strongly disagree, disagree, agree with the statement. That implies in item

3 the entire respondent indicates that the bank has an application of risk management techniques to reduce costs, because the financial world is always in fluctuation,

**In Item 4** Majority of the respondents specifically 35% of the respondents agree with managing risk is important to the bank's performance and Success of your bank. 13% are neutral. As well as 6% tends strongly disagree while 16% of the respondents disagree from the remaining 30% respondents strongly agree with the statement. That implies that managing risk an integral part of bank success

These findings are in line of Ciuhureanu & Baltes (2008): Study on the Risk management in banking institution. They are examine effective risk management a central issue of the bank this should be an integral part of bank management.

**In Item 5**, Majority of the respondents 34% of the respondents disagree with there is significant board and senior management Involvement in the risk management in your bank. And also 17% of the respondents agree, while 20% of the respondents neutral and the same as 6% respondents strongly agree with the statement the remaining 23% are strongly disagree. The implication of response of the respondents they didn't have enough knowledge about is significant board and senior management Involvement in the risk management in your bank.

**In Item 6**, Majority of the respondents 42% respondents are disagree with effective risk management is one of the main objectives of your bank, 7% are agree while 25% of the respondents strongly disagree and also 6% respondents strongly agree with the statement and the remaining 20% are neutral. This response indicates that there are information gap between employee of an effective risk management is one of the main objectives of your bank.

## 4.5 Risk Monitoring

The table indicates that the bank's response to risk also includes action plans in implementing decisions about identifying risk.

**Table 5 : Risk Monitoring**

		Freq.	Percent	Mean	SD
Monitoring the effectiveness of risk management is an integral part of routine management reporting.	Strongly Disagree	29	0.29	2.19	0.99
	Disagree	33	0.33		
	Neutral	30	0.30		
	Agree	6	0.06		
	Strongly Agree	2	0.02		
		100	100%		
The bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses of routine management reporting.	Strongly Disagree	18	0.18	2.65	1.19
	Disagree	32	0.32		
	Neutral	25	0.25		
	Agree	17	0.17		
	Strongly Agree	8	0.08		
		100	100%		
The bank's response to risk includes action plans in implementing decisions about identified risk	Strongly Disagree	13	0.13	2.89	1.23
	Disagree	30	0.30		
	Neutral	25	0.25		
	Agree	19	0.19		
	Strongly Agree	13	0.13		
		100	100%		
The level of control is appropriate for the risk it faces	Strongly Disagree	22	0.22	2.55	1.16
	Disagree	27	0.27		
	Neutral	31	0.31		
	Agree	14	0.14		
	Strongly Agree	6	0.06		
		100	100%		
Over all					

### Source: Survey data, SPSS output,2023

About 33% of the respondents disagree with monitoring the effectiveness of risk management is an integral part of routine management reporting. This is a demonstration of the dashen bank lake of proper routine management reporting per monthly, quarterly of a risk Management

Majority of the respondents are 32% disagreed with the bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses of routine

management reporting. Dashen banks must give attention to arrange a continues evaluation effectiveness of existing control.

About 30% of the respondents are disagree with the bank’s response to risk includes action plans in implementing decisions about identified risk. The implication majority of the respondent disagree action plan for risk management due to they are fully engaged on growth of bank that implies increment of number of account and deposit.

Majority of the respondents are 31% Neutral with the level of control is appropriate for the risk it faces it indicate that majority of the population didn’t have knowledge about level of control.

#### 4.6 Risk Management Practices

**Table 6 : Risk Management practices**

		Freq.	Percent	Mean	SD
The bank’s management regularly reviews the organization’s performance in managing its business risk	Strongly Disagree	33	0.33	2.09	1.01
	Disagree	36	0.36		
	Neutral	22	0.22		
	Agree	7	0.07		
	Strongly Agree	<u>2</u>	<u>0.02</u>		
		100	100%		
The bank’s risk management procedures and processes are documented and provide guidance to staff about managing risk	Strongly Disagree	25	0.25	2.40	1.15
	Disagree	33	0.33		
	Neutral	24	0.24		
	Agree	13	0.13		
	Strongly Agree	<u>5</u>	<u>0.5</u>		
		100	100%		
The banks policy encourages training programs in the area of risk management	Strongly Disagree	23	0.23	2.57	1.23
	Disagree	29	0.29		
	Neutral	24	0.24		
	Agree	16	0.16		
	Strongly Agree	<u>8</u>	<u>0.08</u>		
		100	100%		
The bank emphasizes the recruitment of highly qualified people having knowledge in risk management	Strongly Disagree	26	0.26	2.44	1.23
	Disagree	31	0.31		
	Neutral	25	0.25		
	Agree	9	0.09		
	Strongly Agree	<u>9</u>	<u>0.09</u>		
		100	100%		
Your bank views the supervisory role of the National Bank of Ethiopia (NBE) as critical in risk management	Strongly Disagree	10	0.10	3.41	1.30
	Disagree	19	0.19		
	Neutral	14	0.14		
	Agree	34	0.34		

	Strongly Agree	<u>23</u> 100	<u>0.23</u> 100%		
Your bank has internally developed risk management procedures or guidelines.	Strongly Disagree Disagree Neutral Agree Strongly Agree	13 14 28 25 <u>20</u> 100	0.13 0.14 0.28 0.25 <u>0.20</u> 100%	3.25	1.29
Is your bank actively engaged in research to develop risk management instruments and techniques?	Strongly Disagree Disagree Neutral Agree Strongly Agree	17 35 29 12 <u>7</u> 100	0.17 0.35 0.29 0.12 <u>0.07</u> 100%	2.57	1.12
Is there a separation of duties between those who identify risks and those who manage and control risks?	Strongly Disagree Disagree Neutral Agree Strongly Agree	23 33 27 11 <u>6</u> 100	0.23 0.33 0.27 0.11 <u>0.06</u> 100%	2.44	1.14
Over all					

**Source: Survey data, SPSS output,2023**

The above table shows that out of the total population 36% of the respondents disagree with The bank’s management regularly reviews the organization’s performance in managing its business risk remaining being stands on strongly disagree are 33%, Neutral are 22%, Agree are 7%and 2% are strongly agree on the above statement according to response, it is assured to say banks generally do not reviews the organization performance related to managing business risk.

From above table shows that out of the total population 33% disagree with the bank’s risk management procedures and processes are documented and provide guidance to staff about managing risk, the remaining 25% are strongly disagree, Neutral are 24%, agree are 13% and also 5% are strongly agree on the above statement. The implications that the majority of the respondent are disagree indicates that this bank didn’t proper documentation of risk management procedures.

From above table shows that out of the total population 29% disagree with policy encourages training programs in the area of risk management, the remaining being stands on agree are 16%,

neutral are 24%, strongly agree are 8% and 23% are strongly disagree on the above statement. The implications of the responses are that witnessed the weakness of the bank in arranging training.

This findings are in line of (TSION,2015) is similar in that the finding revealed that staff training of the risk management function plays a central role of the in controlling risk and minimized the risk exposure events.

From above table shows that out of the total population 31% disagree with The bank emphasizes the recruitment of highly qualified people having knowledge in risk management, the remaining being stands on strongly disagree are 26%, Neutral are 25%, Agree are 9% and 9% are strongly agree on the above statement. The responses indicate that respondents disagree that banks give emphasis to recruit risk management qualified people from the market. So it is confident to say it is impossible to get specialized risk management profession in the market.

The above table shows that out of the total population 34% of the respondents agree with Your bank views the supervisory role of the National Bank of Ethiopia (NBE) as critical in risk management remaining being stands on strongly disagree are 10%, Neutral are 14%, disagree are 19% and 23% are strongly agree on the above statement according to response, it is assured to say strictly follow national bank rules and regulation.

From above table shows that out of the total population 28% of the respondents neutral with Your bank has internally developed risk management procedures or guidelines remaining being stands on strongly disagree are 13%, agree are 25%, disagree are 14% and 20% are strongly agree on the above statement according to response, it is assured to say. The implications of the above responses are that the majority population neutral with the bank have not enough knowledge about internal develop risk management procedure and manual.

The above table shows that that out of the total population 35% disagree with the bank actively engaged in research to develop risk management instruments and techniques, the remaining being stands on strongly disagree are 17%, neutral are 29%, agree are 12% and 7% are strongly agree on the above statement. The responses indicate that majority of the respondent didn't have knowledge about research and development.

From above table shows that out of the total population 33% disagree with The bank have separation of duties between those who identify risks and those who manage and control risks, the remaining being stands on agree are 11%, neutral are 27%, strongly agree are 6% and 23% are strongly disagree on the above statement. The responses indicate that there is no segregation of duties among who identify, manage and control risk.

**Table 7 : Risk exposure awareness**

Question		Frequency	Percent
<b>Did the management create awareness about risk exposure in the bank for the employee</b>	Yes	60	60.0
	No	40	40.0
	Total	100	100.0

**Source: Survey data, SPSS output,2023**

Table 7 shows the majority of the respondents that means 60% of the respondent agree with management create awareness about risk exposure bank.

**Table 8: Rank type of risk of the bank**

		Frequency	Percent
<b>If answer above Yes which type of risk of awareness are created or given by the manager of the bank?</b>	Credit Risk	35	35.0
	Market Risk	23	23.0
	Interest Risk	20	20.0
	Liquidity	12	12.0
	Interest		
	Money	10	10
	Laundry Risk		
Total		100	100.0

**Source: Survey data, SPSS output,2023**

Table 8 shows The major risks affecting banks are credit risk, market risk, Interest rate risk ,liquidity interest and money laundry risk our study involved in all the above risk variables.

There are different type's issues that contribute to money laundering in Dashen Bank S.C. The most threatening vulnerability issues are low level of awareness about money laundering, lack of effective monitoring of cross-border currency movements and foreign currency outflows from the center to the periphery in the form of black market and used for export in advance payment is another factor for money laundering.

## CHAPTER FIVE

### 5. Conclusion and Recommendation

In line the objective risk management of Dashen Bank, the researcher has prepared questionnaire to gather firsthand information from dashen bank risk management department staff. The collected data was analyzed using SPSS. The output of SPSS were then described and presented using table and graph. The study tried to examine risk management practice of dashen bank in terms of the four risk management component: Risk Identification, Risk monitoring, Risk Importunes and Risk management practice. The last part of this thesis aim to conclude and recommend based on findings. This conclusion and recommendation were related to risk management practice.

#### 5.1 Conclusion

According to the uncertainty of conditions, the financial institution is facing a large number of risks. For this reason, they concerns about risk management. The researcher discusses and analyzes the risk management practice of dashen banks and tested to answer the research question: What type of risk dashen bank exposed? How can make an effective risk management practice of dashen bank? And what kind of method used for risk management practice of DB? Then the researcher needed to collect data through semi-structured questionnaire. The questionnaires were sent to 100 employees of risk management department of DB staff. The respondents gave responses that are used to analyzed and discussed. The discussion part shows the importance of risk management practice. Based on findings the researcher concludes the following. First risk management is not aligned with performance evaluation and reward mechanisms which may result in poor risk management aspiring to achieve business targets that means bank managers perceive risk management is not a very important and critical to their banks“ overall performance. Second The risk management function is not well-resourced and staffed with sufficiently skilled human resources. Third The main types of risk exposure are market risk, interest risk, liquidity risk ,money laundry and foreign exchange risk. Finally, Ethiopian banks are utilizing some of the approaches traditionally used to manage risks today. Overall, the findings suggest that banks operating in Ethiopia are risk-focused

## 5.2. Recommendation

Based on the findings which are obtained from analysis, the researcher has drawn the following recommendations

- ❖ Risk awareness and an appropriate level of risk training should be provided to all employees, compatible with their functions and levels of responsibility for effective risk management. All management employees need to understand how their risk taking behavior affects the attainment of the objectives of the bank.
- ❖ The respondents not known about money laundry risk this risk one of the significant drivers of financial risk which has a negative effect on bank performance. the bank should give training to its employees regarding to this risk so as to enable them to acquire knowledge required to execute their duties
- ❖ The management of risk should be the responsibility of senior management and all staff in all business lines in addition to the other management function. The responsibility and accountability for risk management of each staff should be well documented and communicated. Each employee needs to have a good understanding of the importance of risk management to the bank and his/her roles and responsibilities for risk management.
- ❖ Effective risk management should be amalgamated during objective setting as well as performance evaluations of individual and business unit.
- ❖ Dashen Bank should adequately resource the risk management function with human and material resources. The bank needs to have risk management professionals who have adequate business experience and are proficient in all aspects of risk theory and information technology. The bank needs to have a well-developed risk infrastructure including risk applications, hardware and data sourcing.
- ❖ There should be a segregation of duties among those who identify risks and those who manage and control risks.
- ❖ Finally, as risk management is growing, dashen bank needs to continuously improve this risk management function to meet the changes in the environment.

### **5.3. Suggestion for further studies**

The researcher suggests the following areas for further studies: However the present study has which can be overcome by further studies firstly the researcher use census method and further research should have to draw sample of respondent's more branches for the sake of generalizing the result of study. Secondly further study use more branches and more banks which are more productive to conduct study that create a compressive picture about risk management in banking industries. Furthermore, its better if the proposed model can also be extended to other service industries especially like telecommunication, Addis Ababa Transport Bureau and Addis Ababa Housing development Agency so that to identify the gap between the risk management practice

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## I. Workplan and Budget

**Time Schedule** :-considering the time to be given to conduct the full-fledged MSC thesis it will require one year, six months to develop the proposal and six months to conduct the actual research, the tentative time schedule is shown in the table

No	Activities	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
1	Proposal development												
2	Submission of final proposal												
3	Data collection												
4	Data ,coding, entry and cleaning												
5	Data analysis												
6	Conclusion and recommendation												
7	Finalizing paper writing												
8	Submission of first draft to my advisor												
9	Reconsidering the paper to include the comments given by my advisor												
10	Submission of the Final draft to the University' research committee												
11	Presenting and Defending the Thesis.												

## **2.Budget Appropriation.**

Besides time, reasonable budget is important to the successful completion of any research. Accordingly, my tentative budget demand for conducting the thesis is put below.

**Table 2 Budget Schedule**

No	Item	Quantity	Unit cost in birr	Cents	Total cost in birr	Cents
1	For paper	2 pack	500	00	1000	00
2	For pen	6	5	00	30	00
3	For flash disk	2	500	00	1000	00
4	For cd- Rw	8	10	00	80	00
5	For printing	100*4	2.00	00	800	00
6	For binding	4	30	00	120	00
7	For photocopy	400	1	00	400	00
8	For mobile card	10	200	00	2000	00
9	For Transport	400	40	00	16,000	00
10	For data collection	Ls	1000	00	1000	00
11	Internet browsing	500 hour	15birr/hour		7500	00
Total					29,930	00
10% Reserve					2,993	00
Grand Total					32,923	00

Source of budget: own source

As shown from the table the budget is the minimum cost for each item estimated based on current price. Thus 10% of the cost shown included as a reserve to cover additional expense to meet increase of price as result of inflation and unexpected task demanding additional expense. Therefore, the total budget necessary for the research will be birr 32,923. Thirty two Thousand Nine Hundred Twenty Three.

Dear respondents:

This questionnaire is designed to collect information about risk management practice in Dashen Bank. This will be used as an input for a thesis in partial fulfillment of Masters of Accounting and Finance. Your response is merely used for educational purpose and the data will be treated utmost confidentiality. Moreover writing name is not necessary. Therefore, would like to thank you in advance for your kind response in giving for your precious time in filling the questionnaire.

If there is any question or require explanation you may contact me via this mobile number

**Hilina Girma Mobile +251913 661073**

Thank you for your cooperation!

### **Background Information**

#### **Instruction:**

Please use this  $\surd$  mark for each question to indicate your response

1. Gender

A) Male  B) Female

2. Age of Respondent

A) 18-22  B) 23-27  C) 28-32  d) Above 33

3. Education status of the respondent

A) Diploma  B) Bachelor Degree  C) Master's Degree

D) PhD

Others, please specify \_\_\_\_\_

4. Experience of the respondent:

A) 1- 5 years  B) 6-10 years  C) above 10 years

## Part II Research related question.

Please provide your level of agreement using the following rate.

(Where 1= Strongly Disagree 2= Disagree 3= Neutral 4= Agree and 5= Strongly Agree)

### 1. The Important of Risk Management Practice

No	Question	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The effective management of risk is central issue of your bank					
2	The main business of your bank is to manage risk					
3	Application of risk management techniques reduces costs or expected losses to banks					
4	Managing risk is important to the bank' s performance and Success of your bank.					
5	There is significant board and senior management Involvement in the risk management in your bank.					
6	Effective risk management is one of the main objectives of your bank.					

### 2. Risk Identification

No	Question	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
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7	The bank carries out a regular identification of its risks exposure connecting with declared aims and objectives					
8	The bank discovers it difficult to identify its main risk exposure					
9	The bank is aware of other banks risk exposure					
10	The bank has established procedures for the efficient identification risk exposure					

11	What kind of risk your bank exposed	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Credit risk					
	Market risk					
	Liquidity risk					
	Operational risk					
	Compliance risk					
	Reputational risk					
	Strategy risk					
	Other specify					

12. Did the management create awareness about risk exposure in the bank for the employee?

Yes  No

13. If question above Yes what kind of awareness are created or given by the manager of the bank ?

Credit risk  Interest risk  liquidity risk  Transaction risk

**3. Risk Monitoring**

	Strongly	Disagree	Neutral	Agree	Strongly
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		Disagree				Agree
14	Monitoring the effectiveness of risk management is an integral part of routine management reporting.					
15	The bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses of routine management reporting.					
16	The bank's response to risk includes action plans in implementing decisions about identified risk					
17	The level of control is appropriate for the risk it faces					

#### 4. Risk Management Practices

	Question	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
18	The bank's management regularly reviews the organization's performance in managing its business risk					
19	The bank's risk management procedures and processes are documented and provide guidance to staff about managing risk					
20	The bank's policy encourages training programs in the area of risk management					
21	The bank emphasizes the recruitment of highly qualified people having knowledge in risk management					

22	Your bank views the supervisory role of the National Bank of Ethiopia (NBE) as critical in risk management					
23	Your bank has internally developed risk management procedures or guidelines.					
24	Is your bank actively engaged in research to develop risk management instruments and techniques?					
25	Is there a separation of duties between those who identify risks and those who manage and control risks?					

Finally, if you would like to comment or suggest any thing you feel about your bank' s risk management system, please mention it.

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Rank in order of importance your bank's risk exposure. State the first five. If the type of risk is not stated amongst the list given, feel free to add your own. The abbreviated term would be acceptable.

- A. Interest rate Risk (IRR)
- B. Market Risk (MR)
- C. Credit Risk (CR)
- D. Operational Risk (OR)
- F. Money Laundry (ML)
- G. Liquidity Risk (LR)
- H. Other Risks please specify