YANGON UNIVERSITY OF ECONOMICS

DEPARTMENT OF COMMERCE

MASTER OF BANKING AND FINANCE PROGRAMME

A STUDY ON RISK MANAGEMENT PRACTICES OF MYANMA FOREIGN TRADE BANK

LWIN MIE MIE HTAY

MBF (Day) 1ST BATCH

OCTOBER , 2019

A STUDY ON RISK MANAGEMENT PRACTICES
OF MYANMA FOREIGN TRADE BANK

A thesis submitted as a partial fulfillment of the requirements for the degree of Master of Banking and Finance (MBF)

Supervised by	**Presented by**
Dr. Daw Soe Thu	Lwin Mie Mie Htay
Professor & Head	Roll No. 38
Department of Commerce	MBF (Day) 1st Batch
Yangon University of Economics	

OCTOBER, 2019

ACCEPTANCE

Accepted by the Board of Examiners of the Department of Commerce, Yangon University of Economics, in partial fulfillment for the requirements of the Master Degree, Master of Banking and Finance.

BOARD OF EXAMINERS

Prof. Dr. U Tin Win
(Chairman)
Rector
Yangon University of Economics

(Supervisor)
Prof. Dr. DawSoe Thu
Professor and Head
Department of Commerce
Yangon University of Economics

(Examiner)
Prof. Dr. Tin Tin Htwe
Professor
Department of Commerce
Yangon University of Economics

(Examiner)
Prof. Dr. Aye Thu Htun
Professor
Department of Commerce
Yangon University of Economics

(Examiner)
Daw Yee Yee Thein
Associate Professor
Department of Commerce
Yangon University of Economics

October, 2019

ABSTRACT

The basic task of bank management is to manage its risk because banks are affected by various risks and the risk management process has become one of the key business functions of banks. A comprehensive risk management system is not only a useful practice to meet the regulatory requirements, but an effective exercise to improve the performance of bank.

The primary objective of this paper is to study and evaluate the risk management practices of Myanma Foreign Trade Bank (MFTB). Various aspects of risk management practices are analyzed through primary data by survey questionnaires, in-depth interviews and secondary data with publications, reports and other research papers particularly those relevant tospecific significant risks which are foreign exchange risk and operational risk of MFTB. This study hopes to contribute in terms of recommending strategies to strengthen the risk management practices of MFTB so as to increase the bank performance and profitability in competitive banking industry.

This study found that the bank adopted a good risk management practices with few areas of improvements. However, bank needs more sophisticated approaches to measure risks and risk monitoring process should be strong and efficient.Development of risk culture is needed for MFTB and bank should establish Risk Management Department (RMD) to implement risk management practice functionally and effectively.

ACKNOWLEDGEMENTS

I would like to express my thanks to professor Dr. U Tin Win, Rector of Yangon University of Economics, for his encouragement to the participant of the MBF program and for giving me a chance to study in MBF Day 1st batch program in Yangon University of Economics.

I would also like to thank especially to Professor Dr. DawSoe Thu, Head of Commerce Department of Yangon University of Economics, Program Director of MBF program and my supervisor for her valuable guidelines, advices to complete this paper and for her understanding during my study.

My deepest heartfelt thanks is extended to all professors, associate professorsand lecturers who contributed and imparted their time and valuable knowledge, experiences and theoretical concepts throughout the course and also supported their guidelines to polish my thesis.

The completion of this paper would not have possible without the help of a number of people. I would like to give thanks to respondents who give me their time and fulfill the survey questionnaires.I wish to thank to all my friends of MBF program for their friendship and team-spirit throughout my course-works in class during my study. I would thank to former researchers for their various findings and perspectives on risk management practices.

CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AML/CFT	Anti-Money Laundering and Combating of the Financing of Terrorism
ASEAN	Association of South East Asian Nations
BCBS	The Basel Committee on Banking Supervision
BOD	Board of Directors
CBM	The Central Bank of Myanmar
CRO	Chief Risk Officer
EU	European Union
FIL	Financial Institutions Law
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KYC	Know Your Customer
MFTB	Myanma Foreign Trade Bank
MMK	Myanmar Kyat
MOPF	Ministry of Planning and Finance
MPU	Myanmar Payment Union
NII	NetInterest Income
RMD	Risk Management Department
SOBs	State owned Banks
SOP	Standard Operation Procedures
SPDC	State Peace and Development Council

CHAPTER 1

INTRODUCTION

In daily life, risk is about undesired and unpleasant events associated with human action or inaction. Risk traditionally has been defined in terms of uncertainty. Based on this concept, risk is defined as uncertainty concerning the occurrence of a loss. Risk is a chance or possibility of loss, damage, injury or failure to achieve objectives caused by an undesired or uncertain action or event. There is no doubt that risk is a predominant factor in the achievement of goals and in the overall success of an organization. Therefore, risk management is essential in banking sector.

Risk management is the planned and systematic approach to the identification, assessment, measurement, monitoring, evaluation and controlling of risk. In fact, risk management refers to the practice of identifying potential risk in advance, analyzing them and taking precautionary measures to reduce the risk. Understanding of risk management helps reduce costs and potential losses. It is a process that is continuous in nature and a helpful tool in decision making process.

Banking is a risky business and several risk factors such as credit, liquidity, operational and market risks have been identified as critical to ensure that the banks position remain intact amid the intense competition in the industry. The survival and success of a financial organization depends critically on the efficiency of managing these risks (Khan and Ahmed, 2001).

Banking becomes more complex, compounded by exploding technological capabilities, expanding product offerings and deregulation of competition. Banks are very fragile institutions which are built on customer's trust, brand reputation with dangerous leverage. Risks are increasing and risk management becomes essential tool for the success of the bank due to their high-risk business. In view of this, the issue of risk management in the financial institutions is a topic of interest not only to the industry players, but also the policy makers.

Till date banking sectors have been working in regulated environment. Due to the increase of severe competition banks have been exposed to various types of risks such as financial risk and non-financial risk. Financial risks are credit risk, market risk and liquidity risk. Credit risk includes borrower risk, industry risk, portfolio risk and market risk. Market risk includes interest rate risk, equity risk and exchange rate risk. Liquidity risk includes funding risk and time risk. Non-financial risks are operational risk, strategic risk and political risk. Moreover, other general risks in banks are legal risk, transactional risk, country risk and compliance risk etc. Types and degree of risks may be exposed to depend upon several factors such as its size, capital, complexities, volume of its business operations and nature of business.

The most important challenge faced by the banks today is the challenge of understanding and managing the risk. Risk is an opportunity as well as a threat. The banking industry is exposed to different types of risk. The essence of risk management is not avoiding or eliminating risk but deciding which risk to exploit and which one to avoid or hedge. Therefore, efficient risk management is important. Risk management in banking is a key issue linked to stability of financial system. For this reason, efficient risk management in banking is required.

The success of the business and organization will be depending upon how efficiently the organization takes care of the entire risk management system. It ensures that the risks are consciously taken with full knowledge, clear purpose and understanding so that it can be measured and mitigated. Thus, effective and efficient risk management is critical to sustain the business growth and continued profitability of the banks.

This study is to focus on the risk management practices of Myanma Foreign Trade Bank (MFTB) which is a leading State-owned Commercial Bank for foreign exchange transactions in Myanmar. This study hopes to improve and to strengthen the risk management practices of Myanma Foreign Trade Bank so as to increase the overall competitiveness in Myanmar banking industry.

1.1 Rationale of the Study

The Global financial crisis (2008) and scandal such as Enron have raised several questions with respect to the growing awareness and the need for appropriate risk management of financial institutions. As a result, there is an increased demand for the adoption of effective risk management frameworks to ensure the continuity and success of the banking sector. It seems that risk management has become an important tool. Banks would need to develop the right balance between risk management and growth by instilling strong risk culture focused on optimizing risk-return trade-offs within a defined risk strategy.

Myanmar banking sector is dramatically changed with 3 main pillars-namely the State owned banks, domestic private banks and new entrant foreign bank branches. As of 31 July 2019, Myanmar's banking sector consists of 4 state-owned banks, 29 domestic private banks and 13 foreign bank branches. In addition, there are 49 representative offices of foreign banks.

Although private banks today are more prevalent, state - owned banks are still playing an important role and they are still holding a significant portion of the banking assets in Myanmar. An appropriate environment in place for managing risk in banking sector is needed so that adequate risk management structure shall ensure soundness of the bank with good performance.

According to the unique nature of bank's business and operations, there has significant risk such as capital adequacy risk, operational risk, foreign exchange rate risk, country risk, market risk, political risk and compliance risk are considered to manage effectively and efficiently.

Risk management is to secure the assets and reputation of the bank and to ensure the continued financial and organizational well being because risk management is considered by researchers as a yard stick for determining failure or success of a financial institution.

A study of risks in MFTB are important to review so that finding concludes how MFTB is facing risks, what is serious risk exposure for MFTB and how mitigate the risks with a more in - depth approach to risk management activities. This research work seeks to bring to light the need for MFTB to pay attention to the management of risk.

As a result, Myanma Foreign Trade Bank can attain a competitive advantage over its existing and potential competitors and it is also intended to serve as a reference material for researchers, students who wish to know much in this area.

1.2 Objectives of the Study

The main objectives of the study are:

(1) To identify the risk management practices of Myanma Foreign Trade Bank.

(2) To evaluate the risk management practices of Myanma Foreign Trade Bank

1.3 Scope and Method of the Study

This study would mainly explore on different strategies and techniques to manage foreign exchange risk and operational risk which are the most significant risks in MFTB. Descriptive method is used in this study. The primary data is collected by using questionnaires with in-depth interviews and meeting with relevant parties. Questionnaires are comprised with open- ended, closed- ended and five points Likert-scale. The questionnaires were administered to the Chief Risk Officer (CRO) of the bank by using a drop-and-pick-later technique. Follow-up activities include telephone calls, e-mails walk-ins and in-depth face to face interview. The sources include secondary data with online publications, text books, articles, journals, newspapers, former research papers and websites.

1.4 Organization of the Study

This study is organized into five Chapters. Chapter one is assigned to introduction of the study. It contains rationale of the study, objective of the study, scope and method of the study and organization of the study. Chapter two reviews relevant literature and explains types of risk in banking, a good picture of what risk management is and how risk management practices are important. Chapter three presents overview of Myanmar banking sector, profile and risks of Myanma Foreign Trade Bank .Chapter four analyzes on significant risk management practices of Myanma Foreign Trade Bank. This chapter explores how MFTB face with its significant risks and manage its foreign exchange risk and operational risk. Chapter five concludes the study with findings, suggestions and the need for further study.

CHAPTER 2

LITERATURE REVIEW

This chapter describes a literature reviews on concept of risk and risk management, different types of risk in banking sector, risk management process and practices, risk mitigation strategies and approaches for banks. The understanding of risk and its techniques is given more clear good picture of what risk management practices is.

2.1 Concept of Risk and Risk Management

Risk is the possibility that the outcome of an action or event could bring up adverse impacts. Such outcomes could either result in a direct loss of earnings / capital or may result in imposition of constraints on bank's ability to meet its business objectives.

Risk can be caused by external and internal sources. The external risks such as political risk, country risk, market risk etc. are not in the position to control directly. On the other hand, internal risks such as operational risk, people risk, legal risk may control and manage directly. Nevertheless, risk management is important for every organization because a bank cannot achieve their goals and objectives without it.

Banks are subjected to a wide array of risks in the course of their operations, as illustrated in Table 2.1.

Table 2.1 The Banking Risk Spectrum

Financial Risks	Operational Risks	Environmental Risks
Balance sheet structure	Internal fraud	Country and political risks
Earnings and income statement structure	External fraud	Macroeconomic policy
Capital adequacy	Employment practices and workplace safety	Financial infrastructure
Credit	Clients, products and business services	Legal infrastructure
Liquidity	Damage to physical assets	Banking crisis and contagion
Market	Business disruption and system failures (technology risks)	
Interest rate	Execution, delivery, and process management	
Currency		

Source: Hennie Van Greuning &Sonja Brajovic Bratanovic, 2009

In general, banks are exposed to **financial**, **operational**, and **environmental** risks. Financial risks 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.

Operational risks are related to a bank's overall business processes and the potential impact thereon of compliance with bank policies and procedures, internal systems and technology, information security, measures against mismanagement and fraud, and business continuity concerns. Another aspect of operational risk encompasses the bank's strategic planning, governance and organizational structure, management of staff careers and internal resources, product and knowledge development, and customer acquisition approach.

Environmental risks are associated with a bank's business environment, including macroeconomic and policy concerns, legal and regulatory factors, and the overall financial sector infrastructure and payment systems of the jurisdictions in which it operates. Environmental risks include all types of exogenous risks that, if they were to materialize, could jeopardize a bank's operations or undermine its ability to continue in business.

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

Schmit and Roth (1990) describe risk management as the accomplishment of different activities formulated to reduce the adverse effect of uncertainty regarding potential losses. Green (1992) explains risk management in banking institutions as a mixture of policies, procedures and persons, adopted to control the potential losses. Walter Wriston (1993 says that bankers are in the business of managing risk. Pure and simple, that is the business of banking.

Risk Management refers to the exercise or practice of forecasting the potential risks thus analyzing and evaluating those risks and taking some corrective measures to reduce or minimize those risks. Nsiah Richard and Elizabeth Bonnah (2014) highlighted risk management helps an organization in the following ways:

1. It identifies, captures, processes and communicates risks management information to management concerning the operation of the organization.
2. It helps to analyze the nature of the cost associated with the management of risk.
3. It allows the management team the opportunity to achieve its objectives as planned. In a company environment where risks management is absent, management plans is disrupted by the occurrence of some unseen events.
4. It disposes management of all situations of risks which may prevent a company of achieving its objectives.
5. It is therefore presented with careful planning, arranging and controlling of operations and in order to resources minimize the impact of risks.

Risk management involves identification of the key financial risks, deciding where risk exposure should be increased or reduced, and finding methods for monitoring and managing the bank's risk position in real time. Risk management is the entire process of policies, procedures and systems an institution needs to manage prudently all the risks resulting from its financial transactions, and to ensure that they are within the bank's risk appetite.

In some organization, risk management is carried out by independent risk management department rather than specially-named risk control sections. Inadequate risk management may threaten the solvency of the bank , where insolvency is defined as a negative net worth ,that is ,liabilities in excess of assets. Sound and effective risk management not only promotes stability of bank and industry but also promotes the confidence of investors and counterparties to involve in financial deals.

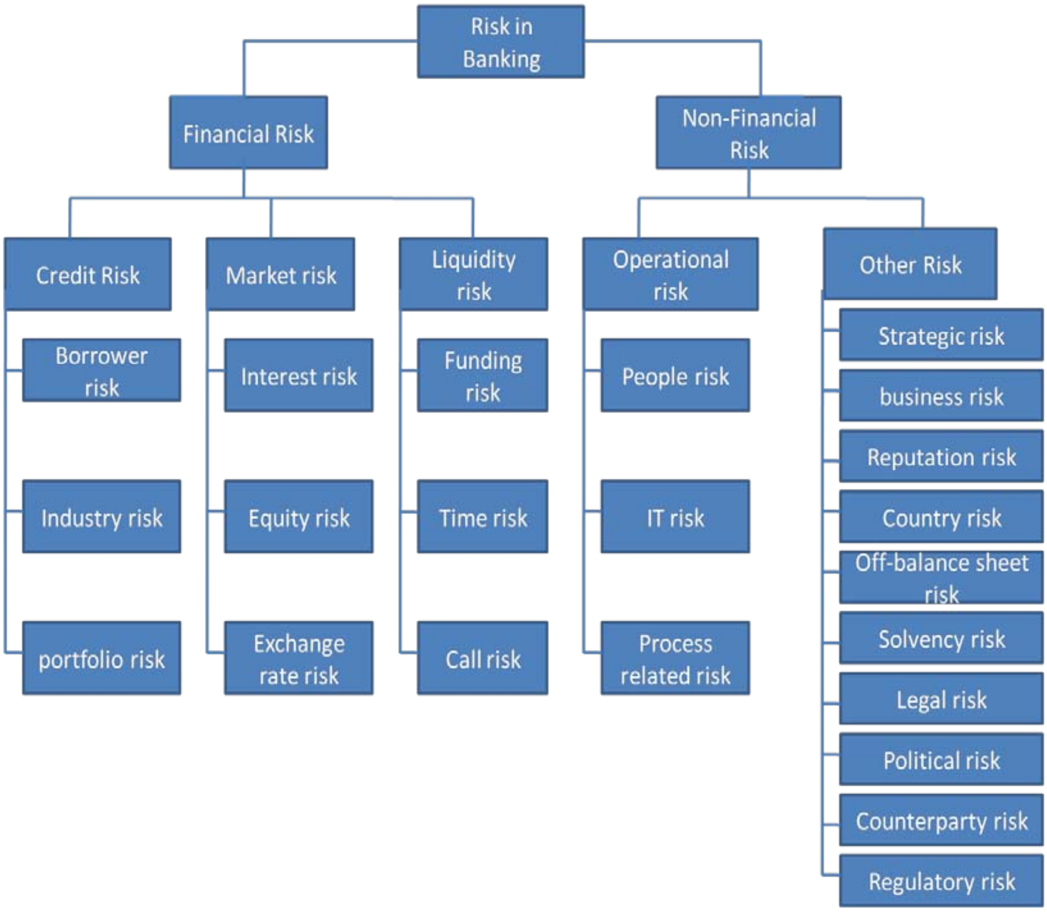
Therefore, the efficient management of risk in the banking industry is vitally important for a sound and stable financial system.

2.2 Types of Risk in Banking Sector

There are several types of risk in banking sector. Risk is mainly classified by financial risk and non- financial risk. Santomero (1997) identifies several types of risks in banks such as market or systematic risk, legal risk and operational risk.

Bessis (2002) points out that credit risk, interest rate risk, market risk, liquidity risk, solvency risk operational risk, foreign exchange risk, country risk, settlement risk, and performance risk are the most important types of risks in banks. Basel Committee (2013) defined that banking risks are grouped mainly into credit risk, market risk, and operational risk.

Figure 2.1 Types of Risk in Banking



Source: Bessis (2002), Abu Hussain and AL-Ajmi(2012),compiled by researcher

The term risk in banking does not have a universal definition. Different authors apply diverse approaches to describe the scope of this term. The different types of risk in banking industry can be described in the following part.

(1) Credit Risk

The Basel Committee on Banking Supervision defines credit risk as the potential that a bank borrower, or counter party, will fail to meet its payment obligations regarding the terms agreed with the bank. It includes both uncertainty involved in repayment of the bank's dues and repayment of dues on time.

(a) Borrower Risk : The risk of default on a debt that may arise from a borrower failing to make required payments. In the first resort, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial.

(b) Industry Risk : Refers to the impact that the State's industrial policy can have on the performance of a specific industry.

(c) Portfolio Risk : It is a chance that the combination of assets or units, within the investments that you own, fail to meet financial objectives. Each investment within a portfolio carries its own risk, with higher potential return typically meaning higher risk.

(2) Market Risk

Market Risk may be defined as the possibility of loss to bank caused by the changes in the market variables. It is the risk that the value of on-/off-balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices.

A bank can be exposed to general and specific market risk in relation to equity, commodities, currencies, debt securities, debt derivatives and equity derivatives. The major components of market risk are therefore interest rate risk, equity risk and currency risk.

(a) Interest Rate Risk : Interest Rate Risk is the potential negative impact on the Net Interest Income (NII) and it refers to the vulnerability of an institution's financial condition to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liability off-balance sheet items and cash flow.

This risk rises with the decline in the market value of banks assets, loans or securities because of increase in the interest rates. Bessis (2002) describes interest rate risk as the risk of deterioration in the earnings of a bank due to the change in the interest rates. Interest rate risk occurs due to mismatch between assets and liabilities of banks. This risk is strongly connected to market risk and an increase in the rate of interest causes to fall in market values of assets and liabilities. As a result, banks use different derivative techniques including options, swaps, futures and forward contracts to control the interest rate risk.

(b) Equity Risk : This risk arises due to negative change in the market value of equities or commodities kept by banks (Bessi, 2002). Equity or commodity price risk occurs due to an adverse movement in the market value of equity related portfolios so that it may bring loss to capital or earnings. This risk is either systematic or unsystematic in banking operations.

(c) Exchange Rate Risk : This risk arises due to an erratic transition in the foreign exchange rate resulted into a negative impact on the obligations of banks. Several factors such as political stability, inflation, public debt, current-account deficits and market speculation may serve to drive the currency down . All the foreign exchange transactions with counter-parties located outside the home country contain this risk. Saunders and Cornett (2006) describe foreign exchange risk as the threat that variation in foreign exchange rate could affect inversely on the value of assets or liabilities reported in foreign currencies. Similarly, Bessis (2002) defines foreign exchange risk as bearing losses due to unfavorable changes in the foreign exchange rates. These losses may arise because of an imbalance between the market value of specific assets or liabilities in the local and foreign currency.

If exchange rates are flexible, any net short or long open position in a given currency will expose the bank to foreign exchange or currency risk, a form of market risk. This risk arises from adverse exchange rate fluctuations, which affect the bank's foreign exchange positions taken on its own account, or on behalf of its customers. For example, if a bank is long on dollar and the dollar declines in value against other currencies, this bank is going to lose out. Bank engages in spot, forward and swap dealings, with large positions that can undergo big changes within minutes. Mismatch by currency and by maturity is an essential feature of the business-good mismatch judgments can profitable and signal of successful risk management.

According to the view of Shapiro(1996), there are three main types of exchange rate risk: namely transition risk, translation risk and economic risk. Lambe Isaac (2015) mentioned that the ***Transaction risk*** is basically a form of cash flow risk and it deals with the effect of exchange rate moves on transactional account exposure related to receivables (Export contract), payable (Import contracts) or repatriation of dividends. An exchange rate in the currency of denomination of any such contract will result in a direct transaction exchange rate risk to the firm. ***Translation risk*** on the other hand is basically a balance sheet exchange rate risk and relates exchange rate moves to the valuation of a foreign subsidiary and, in turn to the consolidation of a foreign subsidiary to the parent company's balance sheet. Translation risk for a foreign subsidiary is usually measured by the exposure of net assets (assets less liabilities) to potential exchange rate moves. ***Economic risk*** is one which reflects the risk to the firm's present value of future operation cash flows from exchange rate movements. In essence, economic risk concerns the effect of exchange rate change on revenues (domestic sales and export) and operating expenses (cost of domestic input and output).

(3) Liquidity Risk

Liquidity means a bank has the ability to meet payment obligations primarily from its depositors and has enough money to give loans. So, liquidity risk is the risk of a bank not being able to have enough cash to carry out its day-to-day operations. The liquidity risk arises due to several reasons including a rapid increase in the sudden demand of the bank's depositors and an inadequate market depth or market disruption (Santomero 1997; Basel Committee, 2008)

It is a risk that a bank may be unable to meet short-term obligations. The risk usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process. Provision for adequate liquidity in a bank is crucial because a liquidity shortfall in meeting commitments to other banks and financial institutions can have serious repercussions on the bank's reputation .It can be seen 3 types of risk as follows;

- **(a) Funding Risk :** Funding liquidity risk is defined as the inability to obtain funds to meet cash flow obligations. For banks, funding liquidity risk is crucial. This arises from the need to replace net outflows due to unanticipated withdrawal/ non-renewal of deposits (wholesale and retail)
- **(b) Time Risk :** Time risk arises from the need to compensate for non-receipt of expected inflows of funds i.e., performing assets turning into non-performing assets.
- **(c) Call Risk :** Call risk arises due to crystallization of contingent liabilities. It may also arise when a bank may not be able to undertake profitable business opportunities when it arises.

(4) Operational Risk

The Basel Committee on Banking Supervision (BCBS) defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events.

There are many causes of operational risks. It is difficult to prepare an exhaustive list of causes because operational risks may occur from unknown and unexpected sources. Operational risks can be categorized in the following way:

(a) People Risk : the risk arises due to human error which done intentionally or unconsciously, incompetency or wrong posting of personnel and misuse of powers

(b) Information Technology Risk : risk is related to the failure of the information technology system, the hacking of the computer network by outsiders, and the programming errors, inappropriate use of information technology, unauthorized and / or unauthorized access to system that can take place any time and can cause loss to the bank .

(c) Process-related Risk : The risk occurs due to errors in information processing, data transmission, data retrieval, and inaccuracy of result or output.

(5) Other Risks

Apart from the above mentioned risks, the following are the other risks confronted by banks in course of their business operations.

(a) Strategic Risk : This risk is one of the most important types of risks in banking activities and related to the strategic decisions having implications for all other types of risks (Bessis, 2002). Crouhy, Galai and Mark (2006) define strategic risk as, “the risk of significant investments for which there is a high uncertainty about success and profitability” (Galai and Mark (2006), Rose. S. Peter &Sylvia C. Hudgins(2015) mentioned that this risk arise from making bad management decision that reflect poor timing, lack of foresight, lack of persistence and lack of determination to be successful.

(b) Business Risk : Business risk is the risk arising from a bank’s long-term business strategy. It deals with a bank not being able to keep up with changing competition dynamics, losing market share over time, and being closed or acquired. Business risk can also arise from a bank choosing the wrong strategy, which might lead to its failure.

(c) Reputational Risk : Reputational risk is the risk of damage to a bank's image and public standing that occurs due to some dubious actions taken by the bank. Sometimes reputational risk can be due to perception or negative publicity against the bank and without any solid evidence of wrongdoing. Reputational risk leads to the public's loss of confidence in a bank.

According to Basel Committee (2009), reputation risk is the possibility of losses emerging from a negative perception on the side of customers, depositors, counter-parties, market analysts, investors, shareholders, regulators and other concerned parties. This risk can have an unfavorable impact on banks' ability to sustain existing or to develop new business affairs in order to maintain a continuous source of obtain funding (Ishfaq, 2006).

(d) Country Risk : A bank that operates in many countries also faces country risk when there's a localized economic problem in a certain country. This risk is related to cross border transactions. Crouhy, Galai and Mark (2006) describe country risk as the risk that an obligor may not be able to fulfill its obligations owing to cross-border constraints on the availability or convertibility of an agreed currency.

(e) Off-balance Sheet Risk : This risk is related to the financial transactions of banks. According to Saunders and Cornett (2008), off-balance sheet risk is the possibility of losses faced by banks owing to have the contingent assets and liabilities within the banking transactions. For instance a standby letter of credit guaranteed issued by a bank is a contingent liability and is interconnected with off-balance sheet risk.

(f) Solvency Risk : The solvency of a bank is a joint product of its available capital and all risks. Bessis (2002) explains solvency risk as, "the risk of being unable to absorb losses, generated by all types of risks, with the available capital" (Bessis, 2002, p.20). Cornett and Saunders (2008) characterize it as the threat that a bank may not have adequate capital to compensate an abrupt decline in its assets value.

(g) Legal Risk : Legal risks are risks associated with changes in legal banking environment. New regulation, new statutes, tax legislation can convert previous well-performed transactions into struggles. Additionally, legal risk can arise from the activities of an institution's management or employees. Bank may face with fraud, violations of regulations or laws, and other actions can result in financial loss and reputation loss.

(h) Political Risk : Political risk is a type of risk faced by investors, corporations and governments that political decisions, events, or conditions will significantly affect the profitability of a business actor or the expected value of a given economic action. Political risk can be understood and managed with reasoned foresight and investment.

(i) Counterparty Risk : This risk arises when the counterparty of a trade transaction potentially fails to meet its obligations. Santomero (1997) considers counterparty risk as the non-performance risk of a trading party. The counterparty risk is more transient banking risk than typical default risk of creditors and is usually linked to credit derivatives in which each member of counterparty is sensitive to symmetrical two-way risk exposures (Besis, 2002; Crouhy, Galai and Mark, 2006).

(j) Regulatory Risk : This risk comes from the non-fulfillment of regulatory requirements by banks. Bessis (2002) takes it as the risk of disputes emerging from the different laws at play in banking transitions. Furthermore, this risk has also the potential to create an adverse impact on the reputation which may lead to lower the business opportunities or reduce banks' growth and may generate liquidity issues within banks (Sokolov, 2007; Crouhy, Galai and Mark, 2006).

2.3 Risk Management Process

The Risk Management Process consists of a series of steps. There is much literature on risk management in general and how a risk management process should be structured. Rusul M.Kanona identifies seven steps of risk management process. Steps of the Risk Management Process in banking sector are as follow;

Step 1. Communicate and consult.

Step 2. Establish the context.

Step 3. Identify the risks.

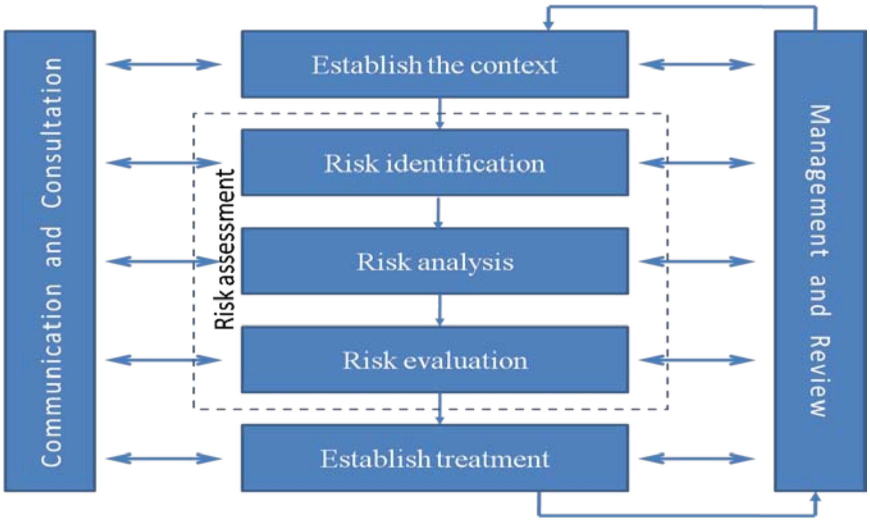
Step 4. Analyze the risks.

Step 5. Evaluate the risks.

Step 6. Treat the risks.

Step 7. Monitor and review.

Figure 2.2 Process of the Risk Management



Source : M. Kanona, Rusul, 2007

Step 1. Communicate and consult

Communication and consultation aims to identify who should be involved in assessment of risk (including identification, analysis and evaluation) and it should engage those who will be involved in the treatment, monitoring and review of risk.

Step 2. Establish the context

It provides a five-step process to assist with establishing the context within which risk will be identified as follows;

1. Establish the internal context
2. Establish the external context
3. Establish the risk management context
4. Develop risk criteria
5. Define the structure for risk analysis

Step 3. Identify the risks

Risk cannot be managed unless it is first identified. Once the context of the business has been defined, the next step is to utilize the information to identify as many risks as possible. To be effective risk identification, the following tips are considered;

- Select a risk identification methodology appropriate to the type of risk and the nature of the activity
- Involve the right people in risk identification activities

- Take a life cycle approach to risk identification and determine how risks change and evolve throughout this cycle.

Step 4. Analyze the risks

During the risk identification step, a business owner may have identified many risks and it is often not possible to try to address all those identified. The risk analysis step will assist in determining which risks have a greater consequence or impact than others. The elements of risk analysis are as follows:

1. Identify existing strategies and controls that act to minimize negative risk and enhance opportunities.
2. Determine the consequences of a negative or positive impact or an opportunity.
3. Determine the likelihood of a negative consequence or an opportunity.
4. Estimate the level of risk by combining consequence and likelihood.
5. Consider and identify any uncertainties in the estimates.

There are three types of analysis can be used to determine level of risk by qualitative, semi-quantitative and quantitative. The most common type of risk analysis is the qualitative method. The type of analysis chosen will be based upon the area of risk being analyzed. Risk analysis tools are designed to help rank or priorities risks. To do this they must be designed for the specific context and the risk dimension under analysis.

Step 5. Evaluate the risks

This step is about deciding whether risks are acceptable or need treatment. Risk evaluation involves comparing the level of risk found during the analysis process with previously established risk criteria, and deciding whether these risks require treatment. The result of a risk evaluation is a prioritized list of risks that require further action.

Step 6. Treat the risks

Risk treatment is about considering options for treating risks that were not considered acceptable or tolerable at step 5. Risk treatment involves identifying options for treating or controlling risk, in order to either reduce or eliminate negative consequences, or to reduce the likelihood of an adverse occurrence. Risk treatment should also aim to enhance positive outcomes. Options for risk treatment can be identified the following options that may assist in the minimization of negative risk or an increase in the impact of positive risk.

1. Avoid the risk
2. Change the likelihood of the occurrence
3. Change the consequences
4. Share the risk
5. Retain the risk

Step 7. Monitor and review

Monitor and review is an essential and integral step in the risk management process. A business owner must monitor risks and review the effectiveness of the treatment plan, strategies and management system that have been set up to effectively manage risk.

The overall purpose of the risk management process is to evaluate the potential losses for the banks in the future and to take precautions to deal with these potential problems when they occur. The risk management process can be summarized with the following three steps:

1. Identifying and assessing the potential risk in the banking business,
2. Developing and executing an action plan to deal with and manage these activities that incur potential losses,
3. Continuously reviewing and reporting the risk management practices after they have been put into action / operation.

2.4 Risk Mitigation Strategies and Approaches

One of the key interests is the mitigation of risks that have been identified as priority threats to the organization's wellbeing. Oldfield and Santomero (1997) define three risk mitigation strategies:

1. Simple business practices aimed at eliminating risks
2. The transfer of risk to other participants better able to bear it
3. The active management of risks.

The financial sector needs to focus on actively managing risks, through their balance sheets and other financial products (Oldfield and Santomero,1997). A critical part of risk mitigation is the need to design and implement accurate and reliable rating systems that incorporate the different credit loss distributions and hence the required capital structures.

The practice of risk avoidance involves actions to reduce the chances of idiosyncratic losses by eliminating risks that are superfluous to the institution's business purpose. Common risk avoidance actions are underwriting standards, hedges or asset-liability matches, diversification, reinsurance or syndication, and due diligence investigation.

There are some risks that can be eliminated, or at least substantially reduced through the technique of risk transfer. Individual market participants can buy or sell financial claims to diversify or concentrate the risk in their portfolios. To the extent that the financial risks of the assets created or held by the financial firm are understood by the market, they can be sold in the open market at their fair market value. If the institution has no comparative advantage in managing the attendant risk, there is no reason for the firm to absorb and/or manage such risks, rather than transfer them. In essence, there is no value-added associated with absorbing these risks at the firm level.

The risks are divided into three categories. Techniques of control as well as the goals of risk management for each group are enumerated. Generally, banks treat the risk by identifying the option to avoid risk or to reduce risk or to take over the risk. The view of risk mitigation is summarized in Appendix I.

CHAPTER 3

BACKGROUND STUDY OF MYANMA FOREIGN TRADE BANK

This chapter intends to provide the related information of research area and discuss the points to meet the objectives of this study. Overview of Myanmar banking sector, profile and risks of Myanma Foreign Trade Bank, its major risks are reviewed and how bank encountered their risk is identified.

3.1 Overview of Myanmar Banking Sector

The banking sector in Myanmar has become very competitive and grown up over the past few years, especially because of the liberalization of market entry, and consequent emergence of numerous private banks. Although it has grown rapidly in recent years, Myanmar’s banking sector is still in the early stages of development in comparison with neighboring countries.

Myanmar's banking sector has atrophied over the years and suffered many ailments. It remains small and unable to provide the required financing to support fast paced economic growth. Fixing these shortcomings is a daunting task considering the current inefficiencies.

Compared to other ASEAN countries, the contribution of Myanmar's banking sector to the economy is limited. Myanmar's banking-assets-to-GDP ratio of 49% is the lowest among ASEAN peers. However, starting from a very low base, Myanmar's banking sector is one of the fastest growing in the region.

A closer look at the structure of the banking sector reveals that each of its three main pillars – namely the state owned banks, domestic private banks and the recently entered foreign bank branches – present their own potentially unique challenges:

1. Large (important) state owned banks with limited capabilities
2. High number of private banks of non-critical scale
3. Foreign banks with strong equity base but restricted scope of operations

According to the information from Central Bank of Myanmar, as of 31 July 2019, there are 33 domestic banks operating in Myanmar. This number includes 4 state-owned banks, 10 semi-Governmental private banks that trade privately but are partially owned by, or closely associated with government agencies, and 19 privately owned banks, 13 foreign licensed banks and 49 representative offices of foreign banks in Myanmar. CBM grated licenses to the first nine foreign bank branches in 2015, the rest four licenses in 2016, and more licenses are expected to be granted this year.

Although State owned banks (SOBs) keep losing market share in strongly growing private and foreign banks, they are still in the vital role in Myanmar banking sector. SOBs remain important because of their good reputation, large deposit base, public trust and a vast branch network.

Private banks are the drivers for innovation and growth of Myanmar banking sector. Growth in private banking sector is impressive. As of December 2017, private bank's market share was the largest in terms of assets.

Currently, foreign banks can provide only cooperate banking services in the country, and they have been restricted from providing retail banking services and direct lending to the public. They are not allowed to take immovable assets as collateral for lending and not allowed to offer kyat fixed deposit accounts. However, they may accept foreign currency deposits. They are restricted to one branch but the CBM has indicated that by 2019 CBM will allow foreign banks to expand their branch network.

The Myanmar banking sector is particularly facing challenges in the pace and nature of the regulatory reform process, in developing human resources, and in re-establishing public trust in the banking sector. Myanmar banking sector continues to encounter a challenging environment for banks. The way forward will certainly not always be easy. For the time being, four major challenges for the banking sector is highlighted:

(i) the well-sequenced and carefully-managed implementation of the new Financial Institutions Law and other relevant rules, regulations and instructions,
(ii) the development of human resources,
(iii) the development of technology and infrastructure, and
(iv) the gaining of public trust.

3.2 Financial Highlights of Myanmar Banking Sector

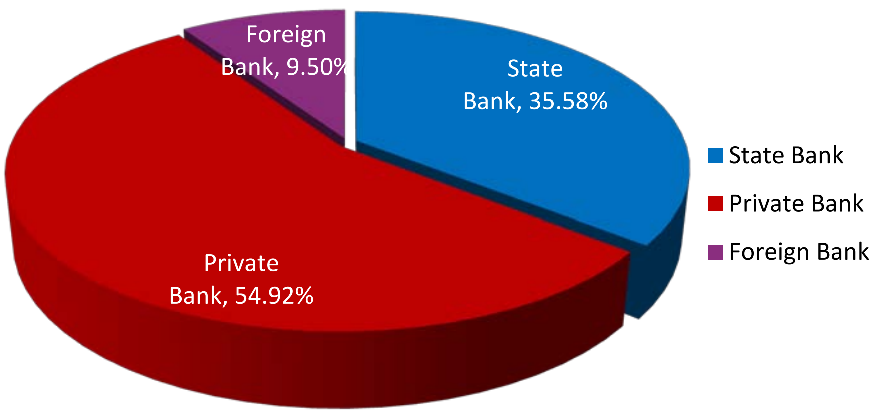
The total assets of the banking sector increased from kyat 39,689,391.29 million at period end FY 2015-16 to kyat 49.884,585.06 million at period end FY 2016-17 mainly growing in loans and advances, cash, fixed assets and Government Securities at 31.61%,12.44%,46.48%,108.97% respectively compared to the previous total assets.

On the other hand, the banking of the major components of the liabilities remained largely by deposit, increased to 27.44% and followed by paid- up capital, borrowing, reserves and share premium at 38.71%, 51.66%, 30.22% and 30.39% orderly.

All state-owned banks and domestic banks have profit in 2016-1017, and also aggregated profit &loss occurred kyat378342.33million profit. However, all foreign bank branches have had difficulties in achieving profitability in FY2016-17 as the first operation started of the previous year. Foreign bank branches have reached positive net interest income but office rental expenses and occupancy expense overwhelm its income in the second year of operation. The Appendix II shows the aggregate balance sheet structure of the Myanmar banking sector for the five fiscal years.

Below Figure 3.1 shows the share of foreign banks, state-owned banks and private banks in terms of total assets. Private banks held 54.92% of the banking system's total assets while state –owned banks only 35.58% and foreign banks 9.50% as of the end of 2016-17 financial year.

Figure 3.1 Market Share in Total Assets of Banks



Source: The Central Bank of Myanmar's Annual Report, 2016-17

Despite a recent trend showing a strengthening of private banks, state-owned banks remain important players in Myanmar's banking sector, holding a significant portion of the banking assets.

3.3 Regulatory and Supervisory Framework for Banking Sector

Banking sector has been working in regulated environment. Bank supervision is needed for banks because a good regulatory system for banking leads to more savers, more lending and better corporate governance in all sectors. Myanmar banking sector aligned with the compliance approach and risk-based supervision approach by Central Bank of Myanmar.

(a) Compliance Approach

Central Bank of Myanmar (CBM) is regulator for all banks and Ministry of Planning and Finance (MOPF) is also regulator and administer for state owned banks. Under the 2013 Central Bank of Myanmar Law and the 2016 Financial Institutions Law (FIL), Myanmar established the independence of the CBM as the banking-sector regulator. The CBM acts as the sole supervisory authority for licensing, regulating, and enforcing compliance in the banking sector for semi-private bank, privately owned banks, branches of foreign bank and state-owned bank, However, in terms of mandate and policy direction, though, the four state-owned banks still fall under the purview of the Ministry of Planning and Finance. The CBM is given the responsibilities of implementation of the country's monetary and exchange rate policies as well as regulating and supervising the banking sector. Bank supervision is supposed to entail on-site inspection and off-site monitoring.

By way of on-site inspection, the CBM occasionally examines the bank's operations by its inspection teams whether the bank is abiding the policies and regulation or not. CBM checks whether the bank complies with laws, rules and regulations or not.CBM conducts regular on-site inspections of all financial institutions under its jurisdiction involving:

- Assessment of bank's overall financial health;
- Evaluation of quality on management and role of boards;
- Verification of compliance with legal and regulatory requirement;
- Inspections are conducted by CAMEL rating system;
- Enhancing bank's capacity building for increasing size and introduction of new services and product

By way of off-site monitoring, CBM checks regularly periodic reports for financial dada which bank is submitted by daily, weekly, monthly, quarterly and annually. Off-site supervision and monitoring is based on periodical reports which conducting:

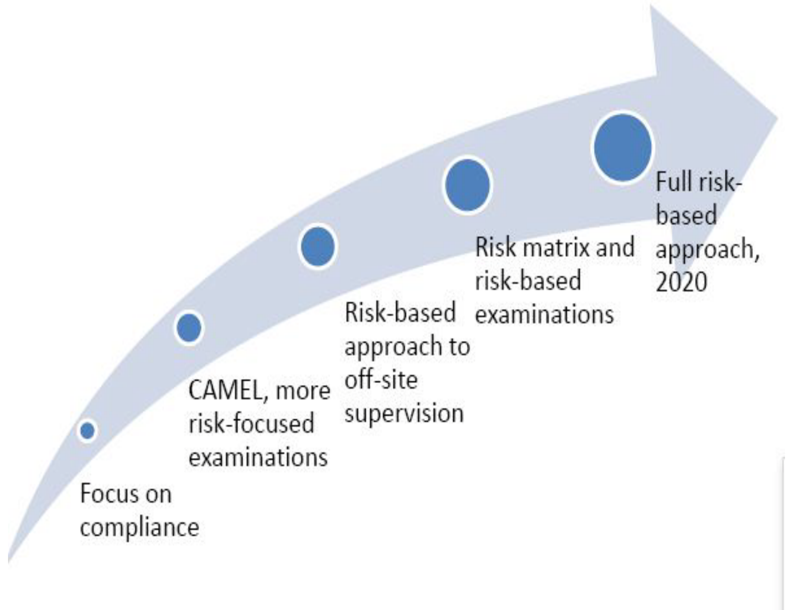
- Monitors the overall and individual banks financial health;
- Helps in early problems detection for appropriate corrective action;
- Focuses on-site supervisory resources to high risk areas or activities

The supervisory process of on-site inspection and off-site monitoring culminated into enforcement actions including; imposition of pecuniary penalties, removal of management, board of directors and cancellation of banking license. Bank supervision acts as compliance approach in order to ensure safe and soundness of the banking system.

(b) Risk-based Supervision Approach

CBM supervises on all Myanmar banks by focusing compliance basic earlier. Now, CBM transforms from compliance based to risk-based supervision gradually because risk-based supervision is the international standard for bank supervision. Monitoring compliance with minimum requirements is part of risk-based supervision of CBM. In accordance with the CBM law 2013, CBM facilitates new regulations/directive. CBM will complete their transition to full risk based approach by 2020.Figure 3.2 mentions plan for the transformation of CBM's supervision.

Figure 3.2 Road Map for Development of CBM's Supervision



Source: IMF-CBM Seminar, April 2019

Objectives of CBM's approach for risk- based supervision is as follow:

- To identify and respond at an early stage to risks that banks will be non-compliant with regulatory requirements in the future
- To improve bank's risk management capacity , enabling supervisors to rely on boards and management to manage risk
- To enable the CBM to focus its limited resources on the most significant risks in the banking sector

CBM's risk-based supervision practices have been made as follow:

- Monitoring and financial analysis by rations, benchmarks and reporting
- Risk assessment by CAMEL rating and risk matrix.
- Risk mitigation with supervision plan for each bank based on CBM's risk appetite and required actions of banks
- Follow-up and enforcement on required action and continuous risk assessment by use of power including corrective actions (FIL Chapter XIII) and administrative penalties under FIL Chapter XXIV.

CBM is practicing risk-based supervision with above four strategies. It is clear that Myanmar banking sector well accepted the importance of risk management practices.

3.4 Profile of Myanma Foreign Trade Bank

Myanma Foreign Trade Bank (MFTB), a state owned bank, is one of the leading banks for foreign banking business in Myanmar. It is a legal successor of the foreign department of the State Commercial Bank, which was established in 1954 and focused on international trade. MFTB is doing business in accordance with the Financial Institutions of Myanmar Law (2016), to conduct the international banking, domestic banking and financial services, to provide the external trade and non-trade foreign exchange operations for State as well as private sector in harmony with market oriented economy. MFTB provides international banking services through its wide range of correspondent banking network and also provides domestic banking services through its certain range of customer based. It has no branches and subsidiaries in domestic and abroad.

MFTB enjoys a competitive edge through its more than 240 correspondent banking relationships worldwide. Its private sector bank competitors are rapidly establishing and expanding their own overseas networks, and it is only a question of time before even this element of the MFTB's remaining competitive edge evaporates entirely.

The bank is under the umbrella of Ministry of Planning and Finance (MOPF) and MOPF plays as an administrative role and regulatory body. MFTB has especially provided foreign exchange transactions for government-owned enterprises and departments. MFTB frequently acts as the designated borrower for government-to-government commodity loans, concessional loans and buyer credit loans in foreign currency for the development of Myanmar. MFTB has begun introducing new products and services for its customers from time to time. In August 2017, bank introduced kyat denominated accounts for the first time and bank expands their business in domestic banking services. The bank now offers a full range of local currency accounts, including accepting savings and fixed deposits, providing kyat-denominated loans as its new products. MFTB has expanded its suite of dollar-denominated pre-shipment and post-shipment trade financing services for importer and exporters beyond simply a letter of credit.

MFTB concentrates its services with the following functions;

(i) Accepting current and fixed deposit account in foreign currency and Myanmar kyat, saving deposit account in Myanmar kyat

(ii) Issuing, advising and confirming letters of credit

(iii) Drawing, accepting and collecting bills of exchange

(iv) Issuing and advising bank guarantees

(v) Trade financing for exporter and importer

(vi) Interbank lending and corporate lending

(vii) Implementation and administration for government project loan

(viii) Inward and Outward Remittance

(ix) Services of MPU Cards

(x) Collecting the proceed of credit card traveler cheque

(xi) Purchase and sale of foreign currency

(xii) Issuing demand draft and payment order

(xiii) Analyzing and legal advice on Commercial Contract, Loan Agreement, Facility agreement, MOU and Project Proposal

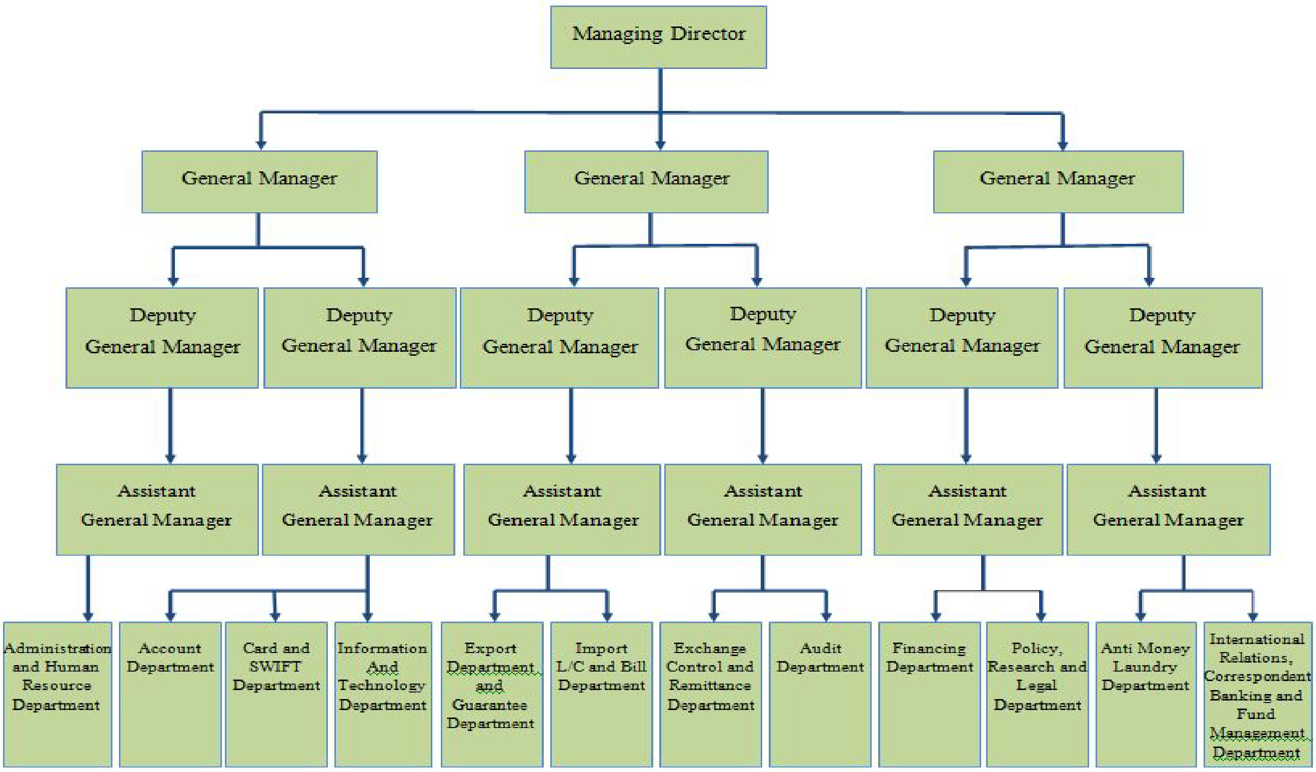
(xiv) Advice on draft of new laws, amendment of rules and regulations, policy frameworks

Because of the supporting largest banking services for State and its unique nature, the bank most affected by U.S and European Union (EU) Sanctions against Myanmar Government in the case of the U.S , these included the suspension of all correspondent accounts with US banks. During U.S sanctions period, MFTB was strongly affected its operations and business relationship due to its business nature was primarily concerned with the foreign exchange transactions of government, government agencies and State-owned enterprises. Bank faced with exchange rate risk, operational risk and country risk consequently for many years.

3.5 Organization Structure of MFTB

In order to operate international banking and domestic banking, bank organized (12) departments. These different departments provide services depending on the specialized business functions. Number of personnel are 433 as of 31st July 2019. MFTB operates with fewer staff than their originally planned 'headcount'. Recruitment is hindered by low rates of pay and no incentives for the employees. Therefore, it is difficult to recruit and retain the best, most knowledgeable and well-trained staff. The organization structure of MFTB as of March 2019 can be seen in Figure 3.3.

Figure 3.3 Organization Structure of MFTB



Source: MFTB, 2019

3.6 Risk Management Structure of MFTB

Under the supervision of The Board of Directors (BODs) and senior management, MFTB established risk management committee on 15th June 2017 and issued a comprehensive risk management policy guideline on 31 October 2017. Bank reconstructs its risk management committee on 27th September 2018 for ensuring sound risk management culture effectively in the bank. Risk management structure of MFTB can be seen in Figure 3.4.

Figure 3.4 Risk Management Structure of MFTB

Source: MFTB, 2019

BODs are governing body and they delegate the authority. BODs have responsibility for the oversight of the risk management, part of which it may delegate to its Audit department or auditing team.

Structure of governance for state-owned banks has a few issues because FIL (2016) set the legal framework for governance. Regarding appointment of BODs, the old version of FIL (1990) set to appoint minimum 7 members are appointed by the government. New FIL set specific qualifications for BODs. Directors cannot be appointed if they do not meet fit and proper criteria and if they are not approved by CBM. At MFTB, MOPF appoints the executive members based on their positions at bank. To appoint non-executive members, MOPF instructs the respective government entities to nominate suitable candidates for specified positions. The final board composition is approved by MOPF.

The Senior Management is responsible for implementing the bank's strategies to achieve the business goals and the desired risk profile. Senior Management and the Board have good oversight of the risks and play an active role in risk management.

Risk governance set the three- lines of defense model. The first line of defense is the business operations which performs day-to-day risk management and compliance with the risk policies and implements an effective risk and control environment to operate. The second line of defense is the oversight functions which relates to the appropriate internal control framework put in place to ensure effective and efficient operations in order to comply with laws, regulations, supervisory requirements and the bank's internal policies and procedures for all types of risk. The third line of defense is internal audit and external audit which provide independent challenge to the levels of assurance provided by business and oversight functions. It informs strengths and potential weakness of the two first lines. MFTB manage risk through clear delineation of the three lines of defense.

Risk management committee is responsible for the risk, oversight function including but not limited to approving the risk management strategies, frameworks and policies for the material risks faced by the bank. Under the risk management committee, sub- committee and teams are organized with their key responsibilities to manage on related risks.

Asset and Liability Management Committee is responsible for management of market and liquidity risk through the formulation of broad strategies for the balance sheet profile and funding structure of the bank.

Credit committee is responsible for approval of loans, financing subject to pre-determined authority limits and criteria for lending. Moreover, committee is responsible for reviewing the credit and evaluation for credit portfolio management.

Market Survey team is responsible for reviewing and studying the market movement both local and world market for setting the daily exchange rate. They collect and record the actual traded prices in market four times a day at 10:00 am, 12:00 pm, 2:00pm and 3:30 pm every day except holidays. Market exchange rate is submitted to the Exchange Rate Setting Committee with timely manner for supporting and monitoring the daily exchange rate in order to set the foreign exchange rate for day- to-day operation and for measuring the exchange risk that are in place to support good risk management practices for foreign exchange risk.

Audit Committee plays an essential component of a risk management practices. This committee is independent their function ensures risk management framework and practices paying specific attention to the bank's adherence to established policies, procedures and limits and applicable laws, regulations and guidelines. The audit committee and internal auditors perform as an extension of the board's risk management policy function. The internal auditors perform an independent appraisal of a bank's compliance with its internal control systems, accounting practices and information systems. On the other hand, external auditors those who are audit team of the Central Bank of Myanmar and auditors from Union Auditor's General Office play an important evaluative role in the risk-based financial information process.

Compliance Department is separate from the internal audit function as it is a component of a bank's operational activity. The compliance function is an on-going basis. It consists of AML/CFT compliance and risk-based management on risks from customers, products and services, delivery channels and geographic regions and market. Compliance function is to be aware of risks and to identify the risks.

Operational Groups play as the driver of operational risk management in its business operations in order to comply with the policy, practices and standard operation procedures.

Risk Management of MFTB is prioritized and controlled the use of an internal control system with well-organized Risk Management Committee and Sub-committee such as Assets and Liability Management Committee, Credit Committee, Market Survey team, Audit Committee, Compliance Department and Operational Groups. Bank is designed to reduce the potential negative consequences of any risks.

3.7 Types of Risk in MFTB

There are many different types of risk in banking. Among various risks, risks in MFTB are capital adequacy risk, credit risk, Liquidity risk, market risk, operational risk, compliance risk, political risk and country risk.

(a) Capital Adequacy Risk

In order to operate safely and profitability, bank's activities must be supported by adequate capital. Capital adequacy risk is one of the important risks for the bank. Banks are subject to capital requirements, which force them to maintain a minimum amount of capital (or) equity as a percentage of total assets. MFTB is weak in its capital position. Bank is still needed to build its capital in order to improve its net open position. One reason that MFTB would like to have a higher capital base to expand trade financing, lending and other new product and services.

Although MFTB meets the minimum paid-up capital requirement, core capital ratio remains weak. It is required a substantial capital injection to reach regulatory capital ratio. Bank is further needed capital adequacy requirement in accordance with the Basel Framework.

(b) Credit Risk

MFTB perceives credit risk as not the major risk to the bank, which according to MFTB is not linked to high concentration of loan portfolio in MMK.As the bank plays a very limited role in credit providing and performance bids by Government owned entities, bank carries probably a zero- risk weighting exposure while their position is often fully collateralized and its credit risk is almost nil for the account parties (obligators) are government owned entities. For the private sector, credit risk is limited risk on loan transactions.

(c) Liquidity Risk

Liquidity risk is not actively revealed in MFTB. However, liquidity risk is a risk that bank should set standards and limits to the liquidity position like other banks within a risk appetite. Bank complies well with the central bank requirement on liquidity to keep it above 20%. In accordance with the new liquidity ratio regulation, bank is aware of that and has put in sight to be comfortable. The main liquidity risk for MFTB would be that the huge amount of Government spending on development projects, payments on imported goods and services, repayment principal and interest for Government borrowing decided to increase en masse elsewhere. Otherwise, there are not seems to be a sudden shock.

(d) Market Risk

Market risk of the bank includes interest rate risk and foreign exchange risk or currency risk. Interest rate movements are not seen as fluctuation in Myanmar. Interest rates are set by the central bank. As CBM sets the minimum saving rate and maximum lending rate limit, interest rate risk is not fully exposed to bank at this moment. On the other hand, investment and placement abroad in foreign currency, it would expose to the bank when interest rate changes. There would be risk for the bank.

MFTB is faced with foreign exchange rate risk which is the main element of market risk. Bank carries a significant net open foreign currency positions, any appreciation of Myanmar Kyat would impact on its foreign currency position in future. It would have a major impact on the bank's profitability. FX risk is a major market risk in MFTB because MFTB plays a crucial role which receives and holds the large foreign currency and execute the transfer of foreign currency to MMK to government entities and also bank is responsible to make all payment an settlement for government entities. Through this mechanism of MFTB has built up its FX risk in foreign currency position. Moreover , as a result of exchange rate unification in April 2012,MFTB carried revaluation losses on its foreign exposure at the new exchange rate 819 kyat against old exchange rate around 6 kyat. Therefore, FX risk is a major market risk for MFTB.

(e) Operational Risk

Operational risk is highlighted in MFTB. Operational risk mainly consists of people risk, IT risk and process- related risk. Operational risk is a kind of non-financial risks. In 2000s, non –financial risk such as anti-money laundering, anti-bribery and corruption, embargo and sanctions are exposures to risks in banking sector.

People risk: The management of employee's behavior and human resources are related as major source of people risk. i.e. operational risk. Overworked employees and high rate of quick-job may inadvertently expose incapability that lead to operational risk in bank. Lack of recruitment plan with limited budget allowance may also influence on availability of resourced-person to replace and to continue bank's business operations efficiently. In the long run, there may be higher possibility of unintentional errors in daily operations because of people risk.

MFTB staff skill set is valued and wanted by other banks and some ex-MFTB has successfully worked in the private banks, once leaving MFTB. As salaries and other allowances for professional skilled labour in banking sector is quite high in private banks compare with state owned banks. Skillful and knowledgeable persons those who are quit from the bank is higher than before day by day. The shortage of skill and knowledgeable persons are risk on daily operation process. Thus, human error in daily operation may become operational risk in MFTB if it have not effective recruitment plan for the bank.

IT risk: With a growing competition in banking sector, IT based product and services are highly demand in banking sector. The implementation of IT in bank can lead to challenges in the workflow, policies or procedures and this ultimately lead to risks. Poor manual based system may rise operational risk due to unfit for malfunction. On the other hand, technology and system risk can be shown significant risk because these system fail, computer virus capturing client information for fraud, cyber attacks although they make operation faster, simplify labour and improve the flow of information and data. IT risk includes security risk, availability risk, performance risk or compliance risk. MFTB needs to upgrade technology while they are persuing low technology and capacity in IT-related products and services.

Process-related risk: Lower technology and system, strongly reliance on manual work instead of information technology can lead to process-related risk in business operation. Imperfect system brings inappropriate data processing and poor quality of data makes fraud, processing errors and data security failures and transform to operational risk. ICT development is a key driver of reliable banking services. Unauthorized technology leads to process- related risk such as fraud, cyber attack and lost in data etc. Bank needs to upgrade IT infrastructure and staff skills. On the other hand, bank needs to review ICT security of its existing system, data availability, and protection against data loss or unauthorized access.

(f) Compliance Risk

Similar to other banks, MFTB have to comply with the regulations issued by CBM. At the competitive edge, whenever bank expands their business, the management needs to ensure that bank’s operations and financial performance must be within the established limits i.e, capital adequacy, liquidity, foreign exchange exposure, KYC/customer due diligence, and loan loss provision. There is a risk that business performance must be reached its regulatory requirements.

(g) Political Risk

Political risk faced by investors, corporations and governments that political decisions, events, or conditions will significantly affect the profitability of a business actor or the expected value of a given economic action.US and EU group press on Myanmar banks including MFTB suffers from banking transactions during a period of fight for democracy. The past State Peace and Development Council (SPDC) regime with strong motivation to democracy revolution, United States sanctions on Myanmar banking sector in 2003 which banned the export of U.S financial services to Myanmar.

As a result, some Myanmar banks including MFTB was sanctioned because MFTB is a State-owned bank that controls much of Myanmar's revenues from Oil and Gas, Gems, Jewellery and other proceeds of foreign exchange. International banking services of MFTB surfer from impact of sanctions. International banks and valued customer left from bank for dealing and lead to lose market share. This is a kind of political risk in business transaction of Myanma Foreign Trade Bank.

(h) Country Risk

Country risk occurs when a bank fails to receive payment from overseas. Due to impose of U.S sanctions to Myanmar and financial sector, MFTB was isolated from U.S correspondent banks and foreign reserve is effectively place in small number of countries in sanction period. Bank maintains business relationship with ASEAN countries at a wide range of network. This mean that significant part of the foreign currency holding of Myanmar banks including MFTB placed in the same and relatively at a few banks in the Asia region. It is difficult to receive/payment to/from abroad. This may rise country and transfer risk that would negatively affect its foreign currency assets held abroad. In order to mitigate country risk exposure, the following measures are undertaken;

- ✓ Control country exposure by limiting foreign countries transactions
- ✓ Avoid doing transactions with high risk countries and its banks
- ✓ Engage powerful authorities to reduce or eliminate country risk

In brief, MFTB enhance its market position and consequently create value by assuming and adequately managing certain risks while successfully providing banking services demanded by its customer. Bank encounters as above risks based on the nature of business and bank's day-to-day management on their operations. The major risks can be seen as the following five risks;

i. Capital adequacy risk
ii. Market risk
iii. Operational risk
iv. Political risk and
v. Country risk

3.8 Risk Management Practices of MFTB

Bank indentifies the risks to which it is or might be exposed to operate efficiently, safely, and in line with the Central Bank's prudential regulations. Therefore, risk management process continuously run through the following steps in MFTB:

- Risk Identification
- Risk Assessment
- Risk Screening and Treatment
- Risk Mitigation Response

(a) Practices on Risk Identification

Line Personnel identify the risks to which it is or might be exposed to their department. All identified potential risks are review and evaluate by senior management. Risk identification considers both internal factors(e.g.the bank's structure, the nature of the bank's activities, and the quality of the bank's human resources, organizational changes, and employee turnover etc.) and external factors (e.g. changes in the broader environment and industry, advances in technology etc.).

(b) Practices on Risk Assessment

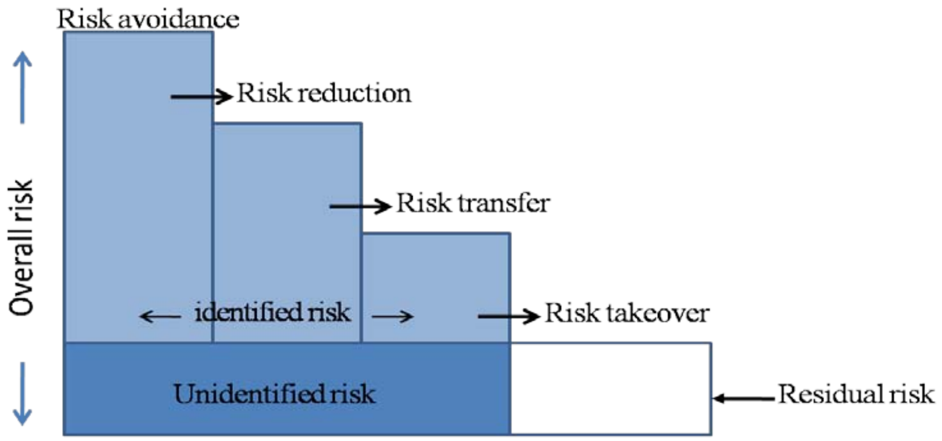
Risk assessment involves rating each risk against two dimensions: probability and impact. Risk assessment approach is realistic and pro- active approach in MFTB. Regarding probability aspect of risk assessment, bank decides how likely it is that the risk will occur. Bank classifies each risk in three categories: high probability, medium probability and low probability respectively.

Regarding the impact aspect of risk assessment, bank considers what the potential impact of the risk would be on the MFTB and its clients, bit in the short- and long term .Each risk is rated in three categories: high impact, medium impact and low impact. If the risk is in high impact, bank terminates or significantly reduces its operations. If the risk is in medium impact, bank would continue its operations, but bank's face with increasing expenses, declining profitability and reducing its future business opportunities. If the risk is in low impact, MFTB easily manages the risk because of small impact would not be strongly effect on its performance and business opportunities. After rating of risk identification and risk assessment, MFTB decides how bank is going to deal with each identified risk on the basis of its evaluation.

(c) Practices on Risk Screening and Treatment

After the risks are identified and classified, assessment on risks to detect risks are needed. Thus, risk treatment strategies of MFTB can be composed by 4 actions. At risk treatment step, MFTB applies a fairly simplified option approach for risk treatment that bank practices risk avoidance or risk reduction or risk transfer or risk take over. Risk treatment strategy of MFTB is shown in Figure 3.5 as below.

Figure 3.5 Risk Treatment Strategies of MFTB



Source: MFTB, 2019

Risk avoidance is the opposite of risk acceptance. It reduces the probability of occurrence to zero by giving up certain economic activities (e.g. risky businesses or technologies). It is the action that avoids any exposure to the risk whatsoever.

Risk reduction reduces the probability of occurrence or / and the impact to acceptable levels by technical or organizational actions (e.g. IT security or outsourcing). It is the most common risk management strategy employing a bit of risk acceptance along with a bit of risk avoidance or an average of both.

Risk transfer is a strategy for transferring risks to a third party (outsourcing business partner) that accepts the harm through contractual arrangements (e.g. Credit Guarantee Insurance).

Risk takeover takes place when a bank itself must bear the residual risk, because the other strategies cannot exclude all risks completely.

(d) Practices on Risk Mitigation

Bank monitors the risks continuously as all of them change over time. It takes an activity but bank finds ways to reduce its associated risks by developing mitigating measures for risks with mitigation plan .In risk management, risk treatment option include avoiding risk, reducing risk, transferring risk and taking over risk. MFTB raises the following questions after risk identification for the purpose of risk mitigation. Risk mitigation process is approached with the following concepts;

- What are the most serious risks?
- Are risk increasing or decreasing?
- How shall the bank effectively manage them?
- What actions should the bank to manage risks better?
- What action should the bank take to ensure risk treatment?
- Are the tools and management information in place to monitor risks effectively?
- What emerging risks could cause problems in the future?

3.8.1 FX Risk Management and Practices of MFTB

In the area of FX risk management, the role of BODs and senior management, the technique and practice of FX risk management are playing as an important role in treating the FX risk.

The role of Board of Directors (BODs) and senior management is vital role in FX risk management. Respondents indicate that the most important role of BODs was to review and approve foreign exchange risk management policies. BODs are responsible for reviewing the effectiveness of internal controls at the bank, based on information provided by the senior management team and recommendations of internal and external auditors. Independent audit function reviews are strongly supported to ensure that bank's management in foreign exchange risks.

The role of senior management team is the most important for directions and activities of FX management. Managing Director is the highest authority for daily FX operations. Head of FX dealer is responsible to handle FX dealing and money market operations. Head of FX Dealer is also important for day-to-day management of the bank's exposure to foreign exchange risk management. Active and skillful FX dealer is important role in FX risk management and operations. Therefore, senior management takes the following responsibilities;

(a) Implement policies on risk management and internal control
(b) Identify and evaluate the significant risks faced by the bank for consideration by the auditors and Board of Directors
(c) Provide adequate information in a timely manner to the Risk Management Committee, Asset and Liability Management Committee and Board of Directors on the status of risks and controls

There are a number of foreign exchange risk management practices and strategies that have been using in financial institutions. MFTB practices the following technique in order to manage the foreign exchange risk;

(1) Identifying exists of FX risk

It is supported to determine the sensitivity of profit margins to FX fluctuations and the stages of operating cycle where the bank needs risk-coverage or protection.

(2) Measuring the FX risk exposure

Understanding of risk exposure is important once the bank know the level of risk, bank can decide how much risk coverage (hedging) is needed. In this stage, questions to answer include;

- What currencies are we exposed to?
- What volume do we transact in each currency?
- What time periods are involved for each transaction?
- What are the impacts of negative exchange rate movements on profit margin?

For an efficient risk management strategy, treasury and fund management team monitor the receivable and payable in foreign currencies, total matching of FX inflow and out flow, holding foreign exchange by each currencies in daily basic.

(3) Hedging the FX risk

Natural Hedging is a way to decrease currency exposure by covering cash outflows by inflow in the same currency. Sometime, hedging makes the different pair of currencies. It is so called cross - hedging when selecting the hedging technique to be used, factors can be considered such as cost, suitability to risk, skills and experience of staff ability. It may choose to hedge against the currency risk by using the forward/ money markets.

(4) Establishing FX Policy and follow it

FX risk criteria, procedures and mechanisms that will support bank's FX risk management and implement this policy across the bank. FX policy change from time to time in accordance with the both internal and external business environment.

(5) Doing nothing

Doing nothing makes sure that the bank does not suffer from the movement of exchange rates in a transaction which exposes the bank to risk. Sometimes, bank takes the advantage of more favorable situations to avoid the adverse fluctuations.

(6) Using payments netting

This technique is used for payments in foreign currencies. Fund transfer affiliate to only a netting amount. As a result, measurable costs such as the cost of purchasing foreign exchange, the opportunity cost of the (time in transit) and other transaction costs with inter affiliate cash transfer are minimized or eliminated. Netting is to transfer only net amounts. Instead of making each payment, incurring transaction costs, the net position between the two banks can be ascertained. Netting can be reduced foreign exchange risk.

(7) Using prepayment

This technique is used for payment in foreign currency if the foreign currency is seems to be appreciated in future, prepayment at present would be at a lower rate. In case of payment for principal and interest under loan in foreign currency, prepayment the principal and interest leads to reduce cost and exchange rate risk.

(8) Making payment in local currency

This technique may increase speed of transactions and lead to lower cost due to without involvement of exchange on transaction risk and impact of exchange rate fluctuation.

(9) Diversifying the foreign currency

Diversified mix of currencies in less risky than a single currency. So long as currency movements are not highly correlated, conducting transactions in multiple currencies will reduce the impact of a sudden and substantial depreciation in any one currency. Bank diversifies its exposure by multiple currencies.

3.8.2 Operational Risk Management Practices of MFTB

The aim of the operational risk management practices of MFTB is to provide an insight on the degree of exposure, how efficiently are controls working and whether exposures are shifting therefore require attention. There are six types of measures frequently applied by MFTB. They are:

- Identifying the risk drivers such as transaction volume, staff-levels, skill levels, customer satisfaction, market volatility
- Monitoring the risk indicators
- Reviewing on loss history
- Predicting potential losses and act upon them
- Exercising and calculating regulatory capital in accordance with the regulatory authority
- Employing performance measures

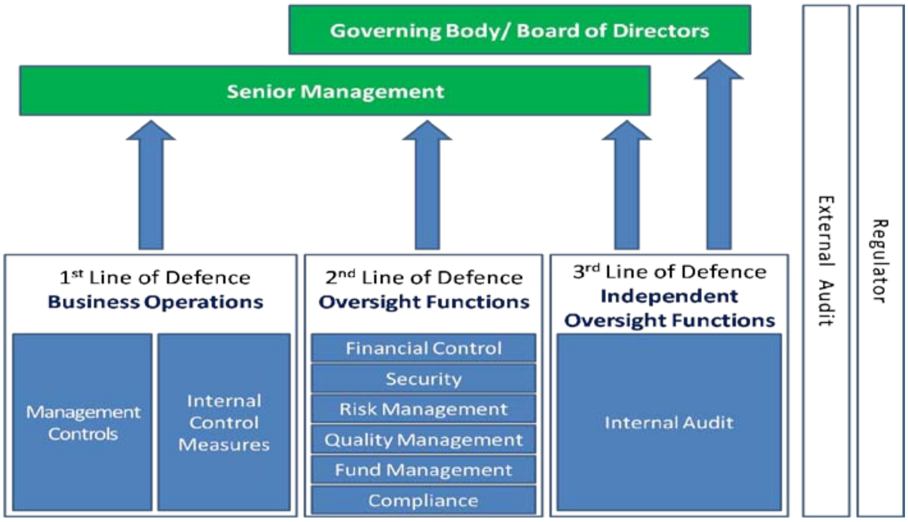
The Basel Committee on banking Supervision (BCBS) sets and defines detailed instruction on the capital assessment of operational risk and recommends a number of methods that bank may consider in the estimation of the operational capital charge. Therefore, MFTB sets three pillars of the Basel II Accord as the main elements of a successful operational risk management. Pillar 1 sets up minimum capital requirement, Pillar 2 build supervisory review process and Pillar 3 encourage enhanced disclosure market discipline according to CBM supervision to meet the needs of regulatory capital for operational risk. Bank is applicable not solely to operational risk but also to credit risk and market risk in accordance with the requirement of BCBS and CBM. To be a successful and efficient operational risk management, bank attempts to apply a comprehensive, three point approach towards managing operational risk management which are enhance the risk coverage, integrate operational risk and decentralize operational risk.

MFTB is practicing three lines defense model which involved three groups or three lines to manage uncertainty and prevent risks in effective risk management. The first line is frontline personnel those who are operational managers own and manage risks. They are responsible for implementing corrective actions to address process and control deficiencies. They are also responsible for maintaining effective internal control and for executing risk and control procedures on a day-to-day basis and for ensuring the activities are consistent with goals and objectives.

The second line of defense is made of supervision functions that include risk control and compliance. The duty of line personnel includes supporting management policies, defining roles and responsibilities and setting goals for implementation, providing risk management framework, controlling risk and issues, reviewing risk reporting, participating in risk reporting committees and validating risk compliance.

The last line of defense consists of internal auditors who objectively and independently assume the role of the consultant. They assist the organizations to attain their goals by introducing systematic approaches to effective risk management and procedures. Operational risk management practices of MFTB can be prescribed with three lines of defense in Figure.3.6

Figure 3.6 Three Lines of Defense



Source: MFTB, 2018

In order to curb the operational risk exposure, the following measures are practicing in MFTB;

(a) Conducting training: Right training of employees may lead to a rise in cost, but the investments will help in lowering operational risk. Therefore, bank regularly provides in–house training by self and jointly sponsored by Myanmar Bankers Association. Scholarship programs and seminars which hosted abroad by World Bank, IMF, ADB, correspondent banks and international assistant partners are blessing for management team and staffs.

(b) Implementing computerized solution: Bank encourages implementation of dynamic computerized solutions to curb operational risk of the bank. Bank is trying to invest in IT infrastructure development because the rise of globalization and technology has been blamed for the increased rate of fraud related activities. IT risk has a capacity to harm an organization's reputation, ensuring from insufficient adaptation to procedures, bad configuration, malicious software, updating antivirus and antispyware packages, access to confidential statistics, and unauthorized entry by unauthorized staff. Bank devotes to upgrading, improving and checking out its systems, to meet the sophisticated user wants, market requirement, regulatory adjustments and internal needs for record management.

(c) Making timely decision: The success of the business rely on its capability in making timely decisions. Therefore, senior management practices timely decision on day- to-day internal operations as well as on external impacts of the bank.

(d) Creating well- outlined policies and procedures: All employees are policies and procedures accountable of the policies on risk and control. The management is tasked with the role of implementing the policies adopted by MOPF and BODs. Standard Operation Procedures (SOPs) is regularly reviewed and adopted by senior management.

(e) Encouraging strong internal audit system: Strong internal control system is supported to curb operational risk. Effective monitoring process, good advices, comments of internal audit team are minimized the operational risks. Bank is encouraging internal audit to be strong.

(f) Following-up guidelines of the external auditors and regulators: CBM and MOPF laid down the compliance regulation and bank is needed to follow up and put in place their guidelines in order to curb the operational risk.

CHAPTER 4

ANALYSIS ON RISK MANAGEMENT PRACTICES OF MFTB

This chapter attempts to examine risk management practices on major risks of MFTB and to explore overview of risk management practices of MFTB. Data analysis is covered the main objectives of the study and assessment is based on primary survey data relating to the risk management practices in foreign exchange rate risk (currency risk) and operational risk as well as practices on risk management. The study explores different strategies and techniques to manage foreign exchange risk and operational risk which are the most significant risks in MFTB.

4.1 Research Methodology

Descriptive method is used in this study. The study exploited primary source of information which was collected through comprising open-ended, closed-ended and Likert type questions as shown in Appendix-III. The questionnaires were administered to the Chief Risk Officer (CRO) of the bank by using a drop-and-pick-later technique. Follow-up activities included telephone calls, e-mails, walk-ins and in-depth face to face interview.

In this study, primary data collection method was used to obtain information and opinions from those personal who encounter daily exposure to various kinds of risk faced by bank. These people were directly and specifically responsible for treasury and money market, fund management, international banking, trade finance, financing and loan. Selected senior management were also distributed questionnaires to examine their understanding level of risks, strategies of risk treatment, risks monitoring and risks assessment. Secondary data and information were gathered from financial and statistical data, disclosures publication, respondents from questionnaire and other relevant source of information.

50 survey questionnaires were distributed to targeted management and staff of departments which direct related (Finance, Treasury, International Banking, and Compliance) with this study. 47 are responded and 3 are rejected due to incomplete answers and non-responded. The total respondent percentage rate is 94%.The results were summarized to draw findings, conclusion and the need for further research.

4.2 Profile of Respondents

Profile data of respondents consists of gender, age, level of education, level of occupation and years of services. Table 4.1 shows the profile of respondents.

. **Table 4.1 Profile of Respondents**

Type	Profile of Respondents	Number of Respondents	Percentage
Gender	Male	10	21.28
	Female	37	78.72
Total		**47**	**100**
Age	20-29	5	10.64
	30-39	15	31.92
	40-49	20	42.55
	50 years and above	7	14.89
Total		**47**	**100**
Level of Education	Master Degree	9	20
	Graduate	38	80
Total		**47**	**100**
Level of Occupation	Low Level	19	40.43
	Middle Level	24	51.06
	Top Level	4	8.51
Total		**47**	**100**
Years of Service	1 to 5 years	7	14.89
	6 to 11 years	18	38.30
	Over 12 years	22	46.81
Total		**47**	**100**

Source : Survey data , 2019

Gender of respondents is not balanced while 10 males and 37 females because of female employment is more than male employment. In terms of percentage, male respondents shared 21.28% and female respondents shared 78.12% out of 47 respondents.

Respondent’s age are classified into four groups. Age group between 40 and 49 years shared the largest with 42.55%. This result shows that most of the risk managers are between 40 and 49 years old.

Level of education is grouped into two: graduate level and Master Degree level. It was found that graduate level was 80% and Master Degree level was 20%.

Respondent's position is divided into three levels: top management level, head of Department and middle management. The respondents with the highest proportion were employees in the middle level at 51.06%, low level was at 40.43% and those of top management level was 8.51%.

The respondent's experience in bank between 1 to 5 years was the lowest duration at 14.89% while a person who has over 12 years experience was 46.81% at the highest duration.

4.3 Major Risks faced by MFTB

Regarding the significant risks of MFTB, this study examines that the most significant risks are foreign exchange risk and operational risk. Table 4.2 shows the degree of significant risks of MFTB.

Table 4.2 Major Risk of MFTB

No.	Major Risk	Number of Respondents	Percentage
1.	Capital adequacy	6	12.77
2.	Exchange Rate risk	21	44.68
3.	Operational risk	11	23.40
4.	Political risk	4	8.51
5.	Country risk	5	10.64
	Total	**47**	**100**

Source: Survey data, 2019

The result pointed out that the importance of risk level. The respondents perceives the most significant risk as exchange rate risk at 44.68% while the second as operational risk at 23,40%, capital adequacy risk was 12.77%, country risk at 10.64% and political risk was 8.51% respectively. Other risks stood at very low response.

4.4 Assessment on Risk Management Process of MFTB

The risk management practice of MFTB is reviewed in brief. Survey questionnaire was given to the risk management personnel i.e; Risk Officers, Managers and Chief Risk Officer etc. The questions here have been divided into eight parts:

1. Identification the Types of risks
2. Degree of risks
3. Objectives of risk management practices
4. Level of risk management practices
5. Level of Understanding risk management
6. Level of risk identification
7. Level of risk assessment and analysis
8. Level of risk monitoring

The research result indicated that the order of importance for risk exposure is FX risk, operational risk, capital adequacy risk, country risk and credit risk.

Regarding the assessing the level of risk management practices, the survey questionnaire includes eight questions about risk management practices of MFTB. It indicated that bank is efficient in its risk management practices. Question number one, “The executive management of the bank regularly reviews the bank’s performance in managing its business risk”, received the highest response. Question five, “Bank emphasizes the recruitment of highly qualified people and consultant having knowledge in risk management” received lowest response which shows bank still requires staff to be knowledgeable in risk management. Question six, “One of the objectives of bank is effective risk management” received an average response. Question seven, “The bank is successfully implementing the central bank guidelines/principles in regard to risk management” was good in position. Level of risk management practices can be seen that it was efficient.

Regarding the level of understanding in risk management, bank provided a positive response in responses to the six questions. Bank staff gave the highest response to questions three, “Risk management is important for the success and performance of the bank” while a least response to question five, “It is significant for bank to emphasize continuous review and evaluation of the techniques used in risk management”. MFTB understood that risk management as core to the success of the bank performance and bank has a good understanding of risk management.

Risk identification is one of the crucial steps in risk management practices. Without identifying risk, the bank is unable to mitigate against it. Therefore, the survey included five questions relating to the identification of risk. As a result on risk identification, bank faces relative difficulty in prioritizing their risk base on the question two. Bank still needs to know how to prioritize their main risks efficiently.

Regarding risk assessment and analysis, the questionnaires contained seven questions relating to risk assessment and analysis. The result indicates that the bank is fairly efficient on assessing and analyzing risk.

Risk monitoring in itself is a component of a successful risk management process. Effective risk monitoring can help bank to discover mistake early and deal with them. Regarding the risk monitoring, there are five questions relating to risk monitoring. Risk monitoring process is needed to be more efficient while all five questions response is not strongly satisfied.

In summary, the results found that MFTB is reasonably efficient in risk management in understanding risk, risk identification and risk assessing and analyzing. However, risk monitoring practice is weak for the time being.

4.5 Assessment on FX Risk Management of MFTB

There are several factors is influenced on FX risk management such as impact of currency, training programs for risk, sources of FX risk exposures, market fluctuation in exchange rate and other important criteria for FX risk management.

4.5.1 Main Currency used by bank transaction in MFTB

Myanmar kyat is used the local transactions and functional (base) currency for reporting purpose. US Dollar is the most commonly used as foreign currency at 60% of the bank's international banking services. EUR is at second position. The other currencies include Japanese Yen (JPY), Chinese Yuan (CNY) and Singapore dollar (SGD) are used on a very small scale. The main transactional currencies are contributed to great exposure of currency risk. As the most foreign currency transactions of MFTB is denominated in the US Dollar and follow EURO currency. Therefore, USD and EUR currencies are greatly impacted to foreign exchange risk of the bank.

4.5.2 Respondent Perception on FX Risk Management Practices

MFTB provides services for foreign exchange transactions and FX risk is significant risk in MFTB. Therefore, the perception of FX risk management practices is needed to study and how to mitigate the foreign exchange risk in MFTB is essential for risk management practices of the bank. Table 4.3 mentions the responses on importance of FX risk management practices.

Table 4.3 Respondent Perception on Foreign Exchange Risk Management

Sr. No.	Particular	Variables	Respondents
1	The effective management of foreign exchange risk is central to your Bank's performance	Strongly Disagree Disagree Neutral Agree Strongly Agree	3 3 4 23 14
2	Application of FX risk management techniques reduces costs or expected losses to bank	Strongly Disagree Disagree Neutral Agree Strongly Agree	3 5 14 17 8
3	Effective FX risk management is one of the main objectives of your bank	Strongly Disagree Disagree Neutral Agree Strongly Agree	4 2 5 20 16
4	There is significant board and senior management involvement in the FX risk management in your bank	Strongly Disagree Disagree Neutral Agree Strongly Agree	0 8 12 15 12
5	Bank's management regularly reviews the organizations performance in managing its FX risk	Strongly Disagree Disagree Neutral Agree Strongly Agree	5 8 9 18 7
6	It is important to continuously review and update risk management techniques	Strongly Disagree Disagree Neutral Agree Strongly Agree	4 4 12 18 9
7	There is a common understanding of foreign exchange risk management across the bank	Strongly Disagree Disagree Neutral Agree Strongly Agree	3 7 15 15 7

8	Level of control by your bank is appropriate for the foreign exchange risk that it faces	Strongly Disagree Disagree Neutral Agree Strongly Agree	8 9 15 10 5
9	Bank makes periodic and systematic assessment of transaction, translation and economic exposure	Strongly Disagree Disagree Neutral Agree Strongly Agree	13 14 7 10 3
10	Bank hedge with an aim of profiting from foreign exchange rate movements	Strongly Disagree Disagree Neutral Agree Strongly Agree	3 3 13 16 12
11	Bank forecasts appreciation and depreciation of relevant currencies	Strongly Disagree Disagree Neutral Agree Strongly Agree	3 4 8 17 15
12	Bank's financial decisions are influenced by its foreign exchange decisions	Strongly Disagree Disagree Neutral Agree Strongly Agree	6 6 12 15 8
13	Bank staff's expertise levels towards foreign exchange risk management is adequate	Strongly Disagree Disagree Neutral Agree Strongly Agree	12 18 12 3 2

Source: Survey data, 2019

48.94% of the bank's employee agrees that the effective management of FX risk is central to the bank's performance, whereas 6.38% disagree. The effective management of foreign exchange risk is a critical component of comprehensive risk management and it is essential for the success of a banking institution.

36.17% of the respondents agree for the application of FX risk management techniques reduces costs or expected losses to banks, 17.02% of the respondents strongly agree. 42.55% of the respondents agree the effective FX risk is one of the main objectives of the bank.38.30% agreed that management is regularly reviews the organizations performance in managing its FX risk, 19.15% of the respondents are neutral.

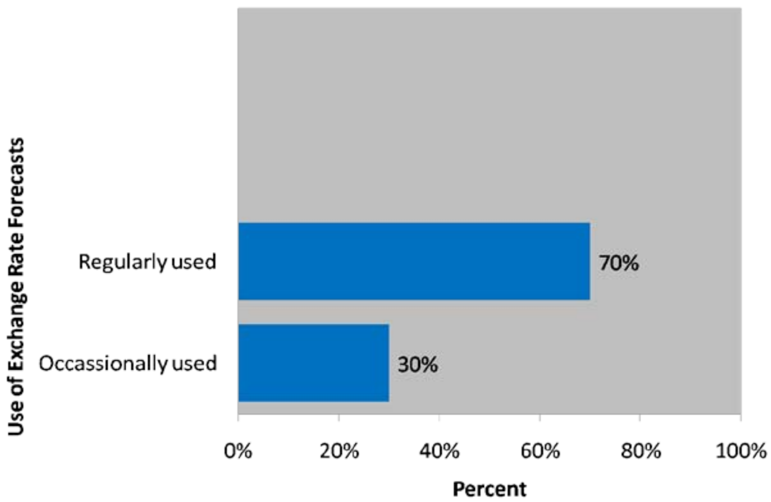
19.15%of the respondents strongly agree.38.30% of respondent agreed that importance of continuously review and update of risk management techniques, and 25.53% neutral. 19.15% of the respondents disagree that the level of control is appropriate for the foreign exchange risk that it faces, and 21.28% of the respondents agree for the existence of appropriate level of foreign exchange risk control.

29.79%of the respondents disagree that bank makes periodic and systematic assessment of transaction, translation and economic exposure, and 14.89% of the respondents are neutral for the existence of periodic and systematic assessment of foreign exchange risk exposures.38.30%of the respondents disagree for that the banks staff's expertise levels towards foreign exchange risk management is adequate, besides that 6.38%% of respondents agree that for the adequacy of the staffs expertise.

4.5.3 Forecasting in Exchange Rate Movement

Figure 4.1 shows that MFTB use exchange rate movements regularly. 70% used exchange rate forecasts in its hedging decisions and 30% is occasionally used exchange rate forecasting. Research result shows that the bank uses exchange rate forecasting for management strategy. Exchange rate forecasting depends on the head of FI's personal view, FX dealers and manager's view and technical ability to analysis of market. Most organization used to forecast exchange rate to decide on hedging. It is the most common technique to manage foreign currency risk.

Figure 4.1 Forecasting in Exchange Rate Movement



Source: Survey data, 2019

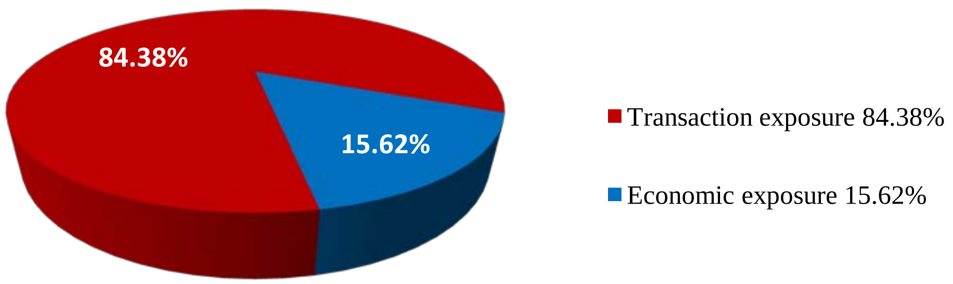
4.5.4 Primary Sources of Foreign Exchange Risk Exposure

Types of currency risk exposure include transaction exposure, translation exposure and economic exposure. Transaction risk occurs when processing a transaction in a foreign currency while translation exposure occurs when the bank has assets and liability that are denominated in a foreign currency which is not domestic currency. Economic exposure is the risk that current values attribute to future cash flows could change based on exchange rate movements. Primary source of risk exposures could impact on the profitability of the bank.

Foreign Exchange Risk exposure comes from payment and settlement under international trade, principal and interest payment under foreign loans, SWAP facilities with inter-bank lending, investing in foreign markets, foreign currency trading and foreign financial asset and liability portfolio.

MFTB indicates and rank how important translation, transaction and economic exposures are to them. Based on types of foreign exchange risk exposure, risk exposure on foreign exchange can be seen in Figure 4.2 as below:

Figure 4.2 Primary Sources of Foreign Exchange Risk Exposure



Source: Survey data, 2019

The respondents were asked to indicate which risk exposures are the primary sources of foreign exchange risk in MFTB. Transactional exposure is the primary source of FX risk at 84.38%, while economic exposure was 15.62%. There is no translation exposure because MFTB does not have any foreign-owned subsidiary until now. This finding is similar to academic literature whereby transaction exposure is the most critical to bank while translation exposure is of less important than transaction exposure.

4.5.5 Training Program for FX Risk Management

Below table shows the response of training program in FX risk. As a result of survey data, 68.08% says bank did not have adequate training programs on FX risk management and 31.92% says they had training programs. Bank is needed to offer more training program for FX management. It is recommended that bank should have adequate training program for different level on foreign exchange risk management in order to boost effective management of the risks.

Table 4. 4 Training Program for FX Risk Management

Training on FX risk management	No. of respondents	Percentage
Yes	15	31.92
No	32	68.08
Total	**47**	**100**

Source : Survey data, 2019

4.5.6 Degree of Foreign Exchange Risk faced by MFTB

The degree of FX risk level is necessary to identify the risk. Table 4.5 explores how the bank faced to FX risk.

Table 4.5 Degree of Foreign Exchange Risk faced by MFTB

Extent of foreign exchange risk	Number of respondents	Percentage
None	1	2.13
Little	2	4.26
Somewhat	14	29.79
Remarkably	9	19.14
Very much	21	44.68
Total	**47**	**100**

Source : Survey data, 2019

From research result based on respondents, it is found that 2.13 % of the respond none, 4.26% respond little, 19.14% remarkably, 44.68%very much to which extent the bank faced to foreign exchange risk, the respondent of 29.79% come into view that bank is somewhat faced to foreign exchange risk.

4.6 Assessment on Operational Risk Management of MFTB

Operational risk that the bank may suffer losses due to the main factors which are system breakdown, use of technology, poor internal operating policies. If bank is suffering operational risk, consequently, bank may face with loss in their reputation because bank exists and operate on the basic of public trust and confidence. When a bank fails to mitigate operational risk, reputational risk may occur as domino effect. Therefore, assessment on operational risk management is important and it is needed to study how to mitigate operational risk in MFTB. Operational risk can be caused by internal sources and external sources. Therefore, assessment on internal operation risk and external operation risk is studied in next section.

4.6.1 Assessment on Internal Operation Risk Management Practices of MFTB

The research obtained data on the internal risk management practices by using a 5 Likert- scale, the respondents were asked to indicate their perception about; people risk, process enabler and system risk and IT risk.

Operational risks are the risks of the loss coming from a failed or an inadequate internal process, system, people or sometimes external events. Operational risk is the vast discipline focusing on the risks increasing from the people, systems, and processes through which a firm operates. It arises from a wide range of activities like acts of frauds, errors, negligence, violations, events of technological failures, process deficiencies, systems flaws, actions of terrorists and vandalism, natural disasters, like floods, earthquakes, etc.

Generally, operational risk arise due to the modernization of banking sector and financial markets which gave rise to structural changes, increase in volume of transactions and complex support systems. For measuring operational risk, it requires estimation of the probability of operational loss and also potential size of the loss. Bank can make use of analytical and judgmental techniques to measure operational risk level.

The management of employee's behavior and human resources are regarded as major sources of the operational risks. Overworked employees and poorly trained may inadvertently expose errors that leads to operational risk in banks. Also, understanding of confidence, mandate, and strategies are significant for efficient operations. Furthermore, availability of employees, ability to replace them may influence bank's ability to continue with its activities and recover from interruptions.

(a) Level of Understanding in People Risk

The level of understanding in people risk is examined by skills to perform work effectively, ethical behavior necessary, failed to comply with risk management policies, recorded cases of employees undertaking acts of dishonesty, supervisory responsibility abuse for their personal benefit, diversity of employees in the working environment with questionnaires and depth- interviews. Table 4.6 identifies the level of understanding in people risk of MFTB. Responses are classified by 5 Likert-scale includes 1 to 5 with strongly disagree (1), disagree(2),neutral(3),agree(4) and strongly agree (5) as below Table.

Table 4.6 Level of Understanding in People Risk (Percentage)

No.	Level of Understanding in People Risk	1	2	3	4	5
1.	Employees have the necessary skills to perform their work effectively	-	-	9.3	57.7	33.0
2.	Employees possess ethical behavior necessary to mitigate the bank against people risk	29.4	4.9	29.4	16.3	20.0
3.	Staff have sometimes failed to comply with policy requirement of the Bank	17.8	30.0	20.0	20.2	12.0
4.	Bank has recorded cases of dishonesty among its employees	38.6	28.0	12.9	5.8	14.7
5.	Some officials with a supervisory responsibility abuse it for their personal benefit	28.0	40.5	11.2	9.0	11.3
6.	Bank has a wide diversity of employees in the working environment	17.1	19.0	22.8	20.5	20.6
7.	Bank gives training to staffs in order to avoid error in daily operation	-	-	-	40.0	60.0

Source: Survey data, 2019

57.7% agree and 33% strongly agree that employees have necessary skills to perform their work effectively in MFTB. Regarding dishonesty among its employees, bank has not recorded cases for dishonesty among its employees. It is found that bank gives proper periodical training to staffs in order to avoid error in daily operation while respondents strongly agree and agree at highest response.

(b) Level of Understanding in Process Risk

Bank's operations are reinforced through variety of systems and processes like IT systems, human resources and liquidity management systems. Level of understanding in process risk is important because improper fit or malfunction can lead to fraud, security failures and processing errors.

Based on result of survey, bank has experienced unreliable hardware and software issues. 37.8% strongly agree and 31.7% agree in this matter. Therefore, Table 4.7 mentions and examines the level of understanding in process risk of MFTB.

Table 4.7 Level of Understanding in Process Risk (Percentage)

No.	Level of Understanding in Process Risk	1	2	3	4	5
1.	Bank has experienced unreliable hardware and software issues.	5.5	17.7	7.3	31.7	37.8
2.	Bank has no clear acceptance of accountability or responsibility for business process	25.0	25.0	17.1	-	32.9
3.	The evaluations of new processes or changes to existing processes are not done at the development phase.	33.4	26.6	22.7	10.6	6.7

Source : Survey data, 2019

(c) Level of Understanding in System Risk and IT risk

Poorly and complex designed systems may lead to arise of operational risk in banks due to their unfit for purpose and malfunction. IT systems in banks are used to increase efficiency, effectiveness and improve the flow of information and data. However, these systems sometimes fail, and typically it leads to losses. IT system problems are caused by Cyber-attacks, viruses and other failures and this result affect the whole system. There are some factors affecting system risk and IT risk in a bank. Responses are classified by 5 Likert-scale includes1 to 5 with strongly disagree (1), disagree (2), neutral(3), agree (4) and strongly agree(5) as below Table.

Table 4.8 Level of Understanding in System Risk and IT Risk (Percentage)

No.	Level of Understanding in System Risk and IT Risk	1	2	3	4	5
1	Bank has experienced system disruptions which have interrupted business	-	8.6	12.9	40.6	37.9
2	Reasonable security measures have been put in place to prevent unauthorized access to the banks network	2.3	3.5	11.4	24.3	58.5
3	Staffs are given good practice guidance on password security	7.10	-	10.0	27.9	55.0
4	Bank has suffered financial losses from acts of IT related risks	15.7	24.3	29.9	23.0	7.1
5	Internal Audit Department regularly conducts system audit.	11.4	42.5	5.7	26.1	14.3
6	The volume of transactions consistently exceeds the technology’s ability to deliver.	18.6	37.1	21.4	14.3	8.6
7	Functionality of systems has not been aligned with business objectives.	35.1	33.3	12.9	10.0	8.7
8	Bank has experienced cases of disastrous events that have caused damage to the bank resources.	5.7	10.9	17.3	50.3	15.8

Source: Survey data, 2019

40.6% of respondents agree that bank has experienced system disruptions. Security measures have already been putting in place that 58.5% of respondents strongly agree and only 2.3% strongly disagree. Staffs are given good guidance on password security with highest response at 55%. Internal audit is needed regularly system audit.50.3% agree that bank has experienced cases of disastrous events that damage to bank records. Thus, disaster recovery plan should be drawn as early as possible.

(d) Level of Understanding in Internal Operations Risk

Level of understanding in internal operation risk of MFTB is somewhat faced to the bank. Operational risk is the exposure of a bank to possible losses, resulting from inadequacy and /or failure in the execution of its operations. The Table 4.9 shows the assessment on internal operation risk in MFTB with summarized findings.

Table 4.9 Assessment on Internal Operation Risk of MFTB

Level of Understanding in Risk	Mean Value
People Risk	
Skills	4.20
Ethical Behavior	3.25
Comply With Policy	3.10
Dishonesty	3.50
Responsibility	3.56
Diversity	3.80
Training	4.11
Average Score	**3.65**
Process Risk	
Unreliable Hardware & Software issues	3.60
Lack of Accountability	3.11
Evaluation of New Process	4.10
Average Score	**3.60**
System and IT Risk	
System Disruption	3.22
Security Measures	3.55
Good Practice Guidance	3.25
Financial Losses from Act of IT Risk	2.11
System Audit	3.49
Volume of Transaction	3.99
Functionality of Systems	3.86
Disasters Causing Damage to the Resources	4.20
Average Score	**3.87**
Total Average Score in Internal Risk	**3.71**

Source: Survey data, 2019

Internal risk factors of people risk, process risk, system and IT risk is studied as a result of respondents and score value. Average score value for people risk is 3.65, process risk is 3.60, while system risk and IT risk is 3.87. Total average score in internal risk management is 3.71. The most employees have the skills to perform their work efficiently and have ethical behavior to work effectively. Most respondents agreed that failure to comply with risk management practices have resulted in losses. Moreover, respondents agreed that bank is experienced cases of dishonesty and some bankers made their personal benefit. However, there is no serious risks exposure in bank and bank can fairly manage internal risk factors on their operational risk.

The most challenging driver of risk in bank lies in the internal procedures and processes. Operational risks in banks are inherent to the internal processes. Failures and omissions in the bank's internal operations can be unintentional due to a minor misunderstanding of the process or intentional with the aim of gaining more profits by exposing the institution to higher risks. Overlapping of responsibilities with the bank can lead to a failure in the internal processes. Other than the unintentional failures within the process, sometimes bank procedures can have loopholes that allow individuals to make personal gains or expose the bank to higher risks than what is expected.

4.6.2 Assessment on External Operation Risk Management Practices of MFTB

The research obtained the respondents perception by using a 5 Likert-scale for the external operational risk management practices. Responses are classified by 5 Likert-scale includes 1 to 5 with strongly disagree (1), disagree(2),neutral (3), agree (4), and strongly agree (5) as below Table.

Table 4.10 Assessment on External Operation Risk Management Practices

(Percentage)

No.	People Risk	1	2	3	4	5
1.	Clients have failed to comply with contractual arrangements.	52.8	19.9	17.8	5.5	4.0
2.	Changes / restrictions in the regulatory environment have a significant impact on the bank.	-	10.0	20.0	37.1	32.9
3.	Bank has initiatives of competitors that influenced product offering of the bank.	3.0	5.8	14.2	56.7	20.3
4.	Some actions of countries or governments impact on the business directly or indirectly.	6.0	6.8	2.0	25.0	60.2

Source: Survey data, 2019

As a result, most clients comply with contractual agreements. 37.1% of respondents agree that other country's policies and government policies are external factors for risk management practices. Changes in regulatory environment, initiatives of competitors, country policies and government policies have an impact on bank. The Table 4.11 shows the assessment on external operation risk on MFTB. External factors influences on operational risk and average score was 3.71. It is found that changes in regulatory environment have a significant impact on the bank. Some actions of countries or policies impact on business operation directly and indirectly.

Table 4.11 Assessment on External Operation Risk of MFTB

Level of Understanding in Risk	**Mean Value**
Failure to Comply Contract	2.90
Changes in Regulator	4.10
Initiatives of Competitors	3.85
Changes of Policy Impact	3.99
Average Score	**3.71**

Source: Survey data, 2019

4.6.3 Factors Affecting Operational Risk of MFTB

Regarding Factors Affecting Internal Operations, staff -turnover is responded at 17.02% and highest response was 19.15% on work experience while 14.89% were concerned about training as shown in Table 4.12.

Table 4.12 Factors Affecting Internal Operations Risk of MFTB

Variables	**No. of Respondents**	**Percentage**
No Answer	10	21.27
Training	7	14.89
Lack of goodwill from top management	1	2.13
Lack of Knowledge by Staff	6	12.76
New Rules are very customer friendly	1	2.13
Outdated Policies	1	2.13
Psychosocial factors of employee	1	2.13
Review of rules	1	2.13
Staff turnover	8	17.02
System failure	2	4.26
Work experience	9	19.15
Total	**47**	**100**

Source : Survey data, 2019

The research found that the following factors impact on internal operations risk management of MFTB:

-insufficient training program

-insufficient knowledgeable persons

-Higher rate of staff turn-over

-decrease in working experience

-Changes in technology

Regarding factors effecting external operation risk, respondents were asked to highlight factors affecting external operational risk management. The issues raised the need for branding was 21.28%, and changes in technology and innovation were at 10.64%.Impact of changing in rules was 8.51%. It can be seen in Table 4.13.

Table 4.13 Factors Affecting External Operations Risk of MFTB

Variables	No. of Respondents	Percentage
No answer	22	46.81
Need for branding and advertisement	10	21.28
Changes in technology and legislation	5	10.64
Bad customers attitude	1	2.13
Dynamic rules that keep changing	4	8.51
Emerging technology	2	4.25
Integration of system with third parties	1	2.13
Social and environmental factors	2	4.25
Total	**47**	**100**

Source : Survey data, 2019

The research found that the following factors impact on external operations risk management of MFTB:

-weakness in advertisement

-changes in regulatory environment

-initiatives of competitors influences

-changes in advanced technology

CHAPTER 5

CONCLUSION

This chapter presents findings, suggestions and the need for further study. To achieve the research objectives, a sum of 50 questionnaires are distributed and 47 are responded for this study. With a view to examine risk management practices of the bank, structured, open-ended and closed-ended questionnaires were distributed to key personal and above level. Based on survey data, this chapter explores the specific findings, suggestions and concludes some idea for further research.

5.1 Findings

The study indicated that the most objectives of risk management were to minimize the foreign exchange losses, to ensure survival of bank, to maintain liquidity and to increase profitability.

Risk Management underscores the fact that the survival of a bank depends heavily on its capabilities to anticipate and prepare for the change rather than just waiting for the change and react to it. In fact, the objectives of risk management is not to prohibit or prevent risk taking activity, but to ensure that the risks are consciously taken with full knowledge, clear purpose and understanding so that it can be measured and mitigated. As risk management is all about making right decisions that contribute overall achievements of a bank's objectives by applying them both to functional areas and individual activity, bank should ensures its mission, vision, and goals which meet due diligence, accountability, innovation and responsible risk-taking.

MFTB is overexposed in the area of three core risk areas: capital adequacy risk, market risk i.e. foreign exchange risk and operational risk. In order to mitigate the core risks of MFTB, appropriate strategies should be laid down for each risk management. MFTB will require a substantial capital injection to be strong capital ratio with strategic plan so that any business expansion plans at bank would require further capital increase while competitive edge of its position. As a result of research objectives, significant findings are revealed on risks management practices of MFTB.

Regarding the assessment on overall risk management practices, the study found that the order of importance for risk exposure is foreign exchange risk, operational risk, capital adequacy risk, country risk and credit risk. Bank is efficient in its risk management practices. The study found that bank had a good understanding in risk management. However, bank is needed to improve its risk monitoring process. The study revealed that bank is successfully implementing the central bank guidelines/principles in regard to risk management. It was good in position.

Regarding foreign exchange risk management practices of MFTB, the study revealed that the transactional exposure was the primary source of FX risk exposure to MFTB. The operational base foreign currency for transactions was United State dollar. The study found that MFTB manages foreign exchange risk by different tools and techniques based on foreign currency portfolio diversification and fund management on hedging the FX risk by money market operation, foreign currency assets and liabilities, exchange rate volatility in market etc. The study recognized that MFTB needs to upgrade auto computerized calculation and assessment on risk and financial performance by standard tools and modern technique in order to get prior notice to review potential risk exposure and to mitigate FX risk in advance.

Regarding the operational risk management practices of MFTB, the study revealed that bank needs to maintain work-life balance due to the tight deadlines and authorities demand. Bank needs to find the best way to reduce overloaded work for staff and management. The study revealed that its HR policies pose a threat to its future operations similar to other state owned banks. At present situation, MFTB is difficult to recruit and retain the most knowledgeable and experienced staff. Bank is urgently needed a good succession HR plan. Bank needs to improve internal procedures and develop its ICT systems for maintaining customers and transactions records to reduce the operational risk. This would protect against unauthorized access, errors in transactions recording, data loss or in consistencies, and help them monitor the flow of business, better plan for liquidity needs, meet “Know your Customer” (KYC) awareness and anti-money Laundering (AML) requirements. It would much easier for reporting to MOPF and CBM. Moreover, IT infrastructure and staff-skills should be upgraded by introducing standardized Core Banking System for record keeping, secure and speedy transactions and to monitor the flow of business as well as to reduce and mitigate the unnecessary risks on daily operations.

Regarding the internal operational risk management practices, the study revealed that most employees have the skills to perform their work efficiently and have ethical behavior to work effectively. The most respondents agree that there is a need for an effective monitoring process. The study revealed that regular staff training as a measure to curb operational risk management for MFTB and regular audit is necessary to ensure compliance in operational management. Internal audit team should be more reliable and strong.

Regarding the external operational risk management practices, the study revealed that the majority of the respondents agree that any changes/restrictions, initiatives of competitors, changes of policies impact on MFTB. Bank is needed for branding and advertisement at competitive edge in the market.

5.2 Suggestions

A good risk management on foreign exchange can bring the following benefits for the banks;

- Better protection for cash flow and profit margin
- Improved financial forecasting
- More realistic budgeting
- Deeper understanding of how foreign exchange fluctuation effect on balance sheet
- Increased borrowing capacity, leading to faster growth and a stronger competitive edge.

Therefore, risks need to be monitored periodically to ensure changing circumstances do not alter the risk priorities in order. Rrisk management process needs to be regularly repeated, so that new risks are captured in the process and effectively managed. In order to manage risks effectively, all key risk indicators will be developed by banks where appropriate. This acts as an early warning to banks on increase risk, potential losses and threats. Effective tracking and monitoring of these indicators help the bank to identify operational changing risks upon the occurrence thus responding to them promptly.

Adequate training is being enhanced by banks to ensure adequate performance by employees, appropriate expertise to staff and career advancement should be put in place. Training program should be provided regularly.

This study recommends that bank should develop its risk culture through policies, communication, and training of staff regarding their responsibilities for risk. Every member of bank should be the tone for the desired risk culture and it must be strengthened.

Generally, MFTB have sound understanding of the various risk exposure elements. However, bank does not possess automated risk management tools and management dashboards to reduce risks and improve performance. The results found that MFTB is reasonably efficient in risk management practices, understanding in risk, risk identification, risk assessing and analysing. However, risk monitoring process should be strong and effective.

ICT investment is required to upgrade and automatic the entire work-flow: application submission, review and assessment, approvals, disbursements, monitoring and regulatory reporting.

Business continuity and disaster recovery plans should be considered. As bank operates from just one location, therefore it really needs to establish a comprehensive business continuity plan to avoid any disruptions to its operations. Although current scope of operations seems reasonably well defined, there is needed to more clear long-term plan for ensuring sustainability of its banking operations.

Bank management should disclose the overall framework (strategy) for operational risk management in a manner that allows everyone to identify the bank's efficiency in identifying, evaluating, controlling, mitigating and controlling operational risks. Senior management can ensure that the bank's operational risk management framework is subject to efficient and comprehensive review by internal auditor by independent, trained, experienced and knowledgeable staff. Senior management should encourage the corporation between internal audit and department concerned to ensure that are fully aware of the procedures and regulations related to the internal control system and operational risk management. Top level of management should continue its efforts upgrading the initiatives taken to manage various risks of bank in prudent manner. Risk management guidelines and other risk related instructions shall be reviewed and revised at least once a year for adopting with the changing environment.

Reporting practice on risk is slightly weak in MFTB. Risk reports should be produced timely and transparently. This can lead to improve accountability and better governance for MFTB.

Structure of governance should be amended in accordance with new Financial Institution Law (FIL) 2016. “Fit and Proper” criteria for judging management is needed not only for risk management but also for other operational management. This approach is considered a best practice internationally, as it codifies a methodology for assessing the qualifications of directors, chief executives and managers. Appointment of BODs should be reviewed the fitness and propriety of Board members in accordance with the new FIL.

Although risk management committee is established in MFTB, it does not have non-executive board members serving on it. Non-executive directors who hold specific banking or commercial business experience with absolute requirement under FIL should appoint for a more in-depth approach to risk management activities.

Although bank appointed Chief Risk Officer (CRO), bank should review and define the role and responsibilities of the CRO. Moreover, bank should reconstruct its risk management structure and bank should establish Risk Management Department (RMD) and CRO should be appointed as the head of RMD. Bank must have an independent full-fledged RMD so that the risk management function will be functionally independent from business and other operation functions.

In conclusion, even though MFTB has better risk management practices, there is still enough room to improve their risk management system. An effective risk management culture will ensure competitiveness and survival in a world full of uncertainties and crises. On the other hand, the development of new product and service requires MFTB to adopt more technically advanced risk measurement techniques and compliant risk mitigation technique in order to sustain their competitiveness in the market. Bank can take risk more consciously, anticipates adverse changes and hedges accordingly; it becomes a source of competitive advantage, as it can offer its products at a better price than its competitors.

5.3 Need for Further Study

This study focuses on risk management practices of foreign exchange risk management and operational risk management practices of MFTB. Other significant risk management practices are needed for further research. In addition, comparison of risk management practices among state owned banks should study for further research.

REFERENCES

1. Abdullab Aloqab, Farouk Alobaidi & Bassam Raweh (2018), Operational Risk Management in Financial Institutions: An Overview. Hunan University, Hunan University, China.
2. Aboli Gangreddiwar (2015), 8 Risks in the banking industry faced by every bank.
3. Angela Nanjala Mumki (2009), Foreign Exchange Risk Management: Strategies and Techniques used by banks in Kenya to manage foreign exchange risk exposure. MBA Thesis,
4. Anthony Wood and Angela Kellman (2013), Risk Management Practices by Barbadian Banks. University of the west Indies.
5. Antoni Borghesi and Barba Gaudenzi (2013), Risk Management: How to Assess, Transfer and Communicate Critical Risks.
6. Ashwath Narayana & Mahadeva KS (2016), Risk Management in Banking Sector. An Empirical Study (IJIR) Vol-2, Issue-8, ISSN 2454-1362
7. Bangladesh Bank, Dhaka (2018), Risk Management Guidelines for banks.
8. BCBS (2011), Principles for the Sound Management of Operational Risk.
9. Beriha Tesfay (2017), Assessment of Foreign Exchange Risk Management in Ethiopian Commercial Banks (Nib and Wegagen Bank)
10. Bessis, J.(2010), Risk Management in Banking, Loiley
11. C.Mahadeva Murthy(2013), Risk Management in Banking: A Study with Reference to State Bank of India (SBI) and Associates.
12. Crouhy, M,Galai, D. & Mark, R (2003), Essential of Risk Management M.Grow-Hill: London
13. EBA (European Banking Authority)(2016), Risk Assessment Questionnaire- Summary of result.
14. Edu CBA (2014), Risk Management in Banks.
15. George S.Oldfield & Anthony M.Santomero(1997), The Place of Risk Management in Financial Institutions The Wharton School, University of Pennsylvania.
16. Green,P, 1992, Reputation risk management. London, United Kingdom: Pitman Publishing.

17. Hennie Van Greuning & Sonja Brajovic Bratanovic (2009), Analyzing Banking Risk: A Framework for Assessing Corporate Governance and Risk Management. World Bank, 3rd Edition.
18. Hussain AI Ali and Babank Naysary(2014), Risk Management Practices in Islamic Banks in Kuwait. Published by Amercian Research Institute for Policy Department.
19. Hussain, H.A.,&Al-Ajmi, J.(2012), Risk Management Practices of Conventional and Islamic Banks in Bahrain. Journal of Risk Finance, Vol.3, No.1
20. Kanona .M, Rusul (2017), The Risk Management Process.
21. Khalid,S.,& Amjad, S.(2012), Risk Management Practices in Islamic Bank of Pakistan.
22. Khan, T.,&Ahmed.H. (2001), Risk Management: An Analysis of Issues in Islamic Financial Industry, Islamic Research and Training Institute.
23. Khin Makyu Pe (Dec 2016), Risk Management of Myanmar Private Banks. MBF Thesis Yangon University Economics.
24. Kuria Stephen Ndaiga (2016), Effectiveness of Operational Risk Management Practices: A case of Co-operative Bank .MBA Thesis, US international University-Africa.
25. Lambe Issac(2015), Assessing the Impact of Exchange Rate Risk on Banks Performance in Nigeria. Bioghan University, Karu, Nigeria.
26. Marina Stoll (2016), Risk Management and Management Control Systems. Similarities and differences.
27. Maroof Hussain Sabri (2011), Foreign Exchange Risk Management in Commercial Banks of Pakistan. The University Lahore.
28. Mary Raphael Lyambiko (2015), The effect of operational Risk Management Practices on the Financial Performance in Commercial banks in Tanzania. MBA Thesis. University of Nairobi
29. Melanie Carter (2014), Five Steps to managing your foreign exchange risk.
30. Muhammad Ishtiaq (2015), Risk Management in Banks: Determination of Practices and Relationship with Performance, Phd Thesis. University of Bedfordshire.
31. Naruini Mohd Ariffin and Solina Kassim, (2014), Risk Management Practices of Selected Islamic Banks in Malaysia.

32. Nsiah Richard and Elizabeth Bonnh, (2014), The effect of risk management in the banking industry in Ghana, a case study of Asokore rural bank limited.
33. Nwe Khaing Khaing (Dec 2017), Operational Risk Management in CB Bank. MBF Thesis.Yangon University Economics.
34. OANDA Solutions for business (2018), FX Risk Management Best Practices: The 5 step guide for SMBs
35. Oldfield, G. & Santomero A.M.(1995), The Place of Risk Management in Financial Institutions, Wharton Financial Institutions Center, University of Pennsylvania, Working Paper 95-05-B
36. Peter Cornelius, (2011), Exchange Rate Risk, An Overview.
37. Phyu Mon Yin (Dec 2017), Risk Management in Asia Development Bank. MBF Thesis Yangon University Economics.
38. Prasanna Prkash (2015), A study on the Significance of Risk Management in Banking Sector.
39. Rashida Abdul Rahman, Siti Balqis & Faisal Dean,(2013), Assessing the Risk Management Practices of Islamic Bank: Empirical Evidence from Malaysia and Pakistan.
40. Ronald Janssen and Bert Kramier(2015), Risk Management and Monitoring in Private Banking
41. Rose, Peter. S & Sylvia C.Hudgins(2015), Bank Management & Financial Services (9^{th} Edition)
42. Ruth Opoku-Adarkwa (2011), Risk Management and Bank Performance: A Case Study of First Atlantic Marchant bank Ghana limited (FAMBL).MBA Thesis, Kwame Nkrumeh University of Science and Technology
43. Santomem A.M (1997), Commercial Bank Risk Management: An Analysis of the process, Journal of Financial Services Research.
44. Saunders, A.and Cornett, M.(2006), Financial Institutions Management: A Risk Management Approach, McGrow-Hill, Irwin.
45. Schmit, J.T. and Roth, K., (1990), Cost effectiveness of risk management practices. Journal of Risk and Insurance, 57(3), pp.455-470.
46. Shafiq, A and Nasr, M. (2009), "Risk Management Practices Followed by Commercial Bank in Pakistan".
47. Shaime AL Hussing, A Study of Risk Management in the United Arab Emirates Banking Industry .Master of Science Finance & Banking.

48. Shapiro, A.C.(1996), Multinational Financial Management 5th Edition, New Jersey: Hoboken.Wiley
49. Tejas Hegde. (2016), A Study of the Risk Management Practices of Banks in India
50. Thirupathi Kanchu & M.Manaj Kumar (2013), Risk Management in Banking Sector-An Empirical Study
51. Turgut Tursoy (2018), Risk Management Process in Banking Industry. MRPA Paaper. Near East University.
52. UK Essays (2018), Importance of Operational Risks in Banks.
53. Walter Wriston (1993), The Economist

Appendix - I

Risk Mitigation Approach

	Risk Mitigation Type		
	Risk to be avoided/ eliminated	Risks to be Transferred	Risks that must be actively managed
Risk Avoidance Goal	1. Reduce chance of idiosyncratic losses arising from business activities 2. Shed superfluous risks by devoting resources to risk avoidance 3. Absorb only optimal quantity of particular risk	1. Buy/sell financial claims to diversify or concentrate portfolio risks 2. Sell assets with risks which the firm has no clear competitive advantage in managing	1. Act as agent for others who cannot hedge/trade 2. Protect proprietary knowledge 3. Disclosure complex or not legal 4. Avoid moral hazard 5. Key element of business purpose
Techniques of Risk Control	• Due diligence • Diversification • Matching • Hedging	• Sale • Syndication • Derivative hedging	• Active risk management
Risk Management Goals	• Minimize non-relevant risk • Control and protect profitability	• Concentrate on risks in which firm has competitive advantage	• Center firm on distinctive competency • Control and protect profitability
Communication Challenges	• Control justified risk avoidance practices	• Cost justify business activity after risk transfer	• Communicate risk management objectives • Communicate risk management competency • Develop a track record

Source: George S.Oldfield & Anthony M.Santomero,1997

Appendix - II

The Aggregate Balance Sheet of the Banking Sector for the Five Fiscal Year

(Kyat in Million)

Particulars	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Cash	9,541,469.96	11,425,090.13	11,325,002.12	14,963,261.43	16,823,791.76
Equity investment	19,426.20	41,227.10	60,768.33	1,550,040.82	77,112.58
Loans and Advances	5,289,043.90	8,318,018.19	11,335,578.68	15,152,161.23	19,942,453.47
Government Securities	2,579,932.00	3,314,547.00	3,483,151.42	2,018,933.46	4,218,906.29
Public Securities	772.80	872.80	881.76	7,361.81	9,686.20
Bills Purchased & Discounted	80,285.06	66,310.88	24,203.67	53,227.17	7,072.05
Fixed Assets	222,994.68	375,946.64	561,330.47	811,252.29	1,188,351.58
Other Assets	4,597,971.76	5,455,521.01	5,620,100.37	4,152,121.41	6,152,255.35
AEG	645,213.64	1,149,486.89	1,200,188.32	981,031.67	1,464,955.78
Total	**22,977,110.00**	**30,147,020.64**	**33,611,205.14**	**39,689,391.29**	**49,884,585.06**
Paid-up Capital	467,204.65	625,110.18	796,439.74	2,070,505.70	2,872,020.73
Reserve	121,266.30	186,291.76	229,784.22	327,651.29	426,676.45
Other Reserve	1,147,011.81	1,180,268.64	1,121,600.56	399,246.95	463,650.31
Profit & Loss A/C	14,191.19	28,593.89	23,988.50	(19,053.34)	(6,492.33)
Share Premium	1,828.29	13,589.26	24,758.84	49,935.59	65,112.69
Deposit	13,101,630.62	17,502,147.74	20,847,517.09	27,674,390.70	35,269,145.89
Borrowing	507,746.96	1,250,093.42	1,450,323.98	1,623,546.43	2,462,324.82
Bills payable	1,255,136.29	2,003,632.18	1,212,995.37	1,044,950.12	733,807.90
Other Liabilities	5,715,880.25	6,227,246.68	6,703,608.52	5,537,186.18	6,133,382.82
AEG	645,213.64	1,130,046.89	1,200,188.32	981,031.67	1,464,955.78
Total	**22,977,110.00**	**30,147,020.64**	**33,611,205.14**	**39,689,391.29**	**49,884,585.06**

Source: The Central Bank of Myanmar's Annual Report 2016-17

Appendix - III

Part I

Questionnaire for Risk Management practices of MFTB

This questionnaire is for my MBF Thesis about "A Study on risk management practices of MFTB". It is not related with the other businesses. Kindly answer correctly the following questions. Please assist me by completing this questionnaire. Responses to this questionnaire will be used to develop general findings and conclusions without specific reference to the bank. I assure you that your personal details will be held confidential. Thank you for your valuable time and kind cooperation.

Part I - Demographic Information

1. Gender

☐ Male ☐ Female

2. Age (Years)

☐ 20-29 Years ☐ 30-39 Years ☐ 40-49 Years

☐ 50 Years and above

3. Education

☐ Graduate ☐ Post Graduate

4. Position

☐ Top management ☐ Head of Department ☐ Middle Management

5. Department / Division

☐ Loan Department ☐ Financing Department ☐ Compliance Department

☐ Remittance Department ☐ Accounts Department ☐ Trade Department

☐ Treasury and Fund Management Department ☐ HR Department

Part II

Assessment on Risk Management Practices of MFTB

Q1. What are the main types of risk that arise from your pursuit of your strategic goals and objectives? Please select all that apply.

Types of Risk

- ☐ Exchange rate risk
- ☐ interest rate risk
- ☐ Credit risk
- ☐ Operational risk
- ☐ Country risk
- ☐ Liquidity risk
- ☐ Legal risk
- ☐ Capital adequacy risk
- ☐ Regulatory compliance risk
- ☐ Political risk

Q2. Please indicate the rate of importance in risk management.

Identification of Significant risks in MFTB

No.	The importance of risk	Very High	High	Medium	Low	Very Low
1.	Credit risk					
2.	Liquidity risk					
3.	Exchange rate risk					
4.	Operational risk					
5.	Capital adequacy risk					
6.	Political risk					
7.	Country risk					
8.	Legal risk					
9.	Interest rate risk					
10.	Regulatory compliance risk					

Objectives of Risk Management Practices

Q3. Please indicate the most important objective of the bank risk management process by tick one number against each statement.

No.	Objectives of Risk Management Practices	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
1.	To reduce legal liability	[ ]	[ ]	[ ]	[ ]	[ ]
2.	To maximize profits	[ ]	[ ]	[ ]	[ ]	[ ]
3.	To avoid making any loss	[ ]	[ ]	[ ]	[ ]	[ ]
4.	To free up as much capital as possible	[ ]	[ ]	[ ]	[ ]	[ ]
5.	To minimize bank's exposure to market downturns	[ ]	[ ]	[ ]	[ ]	[ ]

No.	Objectives of Risk Management Practices	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
6.	To minimize foreign exchange losses	[ ]	[ ]	[ ]	[ ]	[ ]
7.	To reduce the volatility of cash flows	[ ]	[ ]	[ ]	[ ]	[ ]
8.	To ensure survival of the bank	[ ]	[ ]	[ ]	[ ]	[ ]

Effectiveness of Risk Management Process

Q4. Level of Risk Management Practices

No.	Risk Management Practices	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
1.	The executive management of the bank regularly reviews the bank's performance in managing its business risks.	[ ]	[ ]	[ ]	[ ]	[ ]
2.	Bank is highly effective in continuous review /feedback on risk management strategies and performance.	[ ]	[ ]	[ ]	[ ]	[ ]
3.	Bank's risk management procedures and processes are documented and provide guidance to staff about managing risks.	[ ]	[ ]	[ ]	[ ]	[ ]
4.	Bank's policy encourages training programs in risk management.	[ ]	[ ]	[ ]	[ ]	[ ]
5.	Bank emphasizes the recruitment of highly qualified people having knowledge in risk management.	[ ]	[ ]	[ ]	[ ]	[ ]
6.	One of objectives of your bank is effective risk management	[ ]	[ ]	[ ]	[ ]	[ ]
7.	The bank is successfully implementing the Central Bank guidelines/ principles in regard to risk management	[ ]	[ ]	[ ]	[ ]	[ ]

Q5. Understanding of Risk Management

No.	Understanding Risk Management	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
1.	There is a common understanding of risk management	[ ]	[ ]	[ ]	[ ]	[ ]
2.	Risk management responsibility is clearly set out and understood throughout the bank.	[ ]	[ ]	[ ]	[ ]	[ ]
3.	Risk management is important for the success and performance of the bank	[ ]	[ ]	[ ]	[ ]	[ ]
4.	Application of the most sophisticated techniques in risk management is vital	[ ]	[ ]	[ ]	[ ]	[ ]
5.	Bank to emphasize continuous review and evaluation of the techniques used in risk management.	[ ]	[ ]	[ ]	[ ]	[ ]
6.	Application of risk management techniques reduce the costs or expected losses.	[ ]	[ ]	[ ]	[ ]	[ ]

Q6. Level of Risk Identification

No.	Risk Identification	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
1.	Bank carries out a comprehensive and systematic identification of its risk relating to each of its declared aims and objectives.	[ ]	[ ]	[ ]	[ ]	[ ]
2.	Bank finds it that is difficult to prioritize its main risk.	[ ]	[ ]	[ ]	[ ]	[ ]
3.	Changes in risk are recognized and identified with the MFTB's rules and responsibilities.	[ ]	[ ]	[ ]	[ ]	[ ]
4.	MFTB is aware of the strengths and weaknesses of the risk management systems of the other banks.	[ ]	[ ]	[ ]	[ ]	[ ]
5.	Bank has developed and applied procedures for the systematic identification of investment opportunities.	[ ]	[ ]	[ ]	[ ]	[ ]

Q7. Level of Risk Assessment and Analysis

No.	Risk Assessment and Analysis	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
1.	Bank assesses the likelihood of occurring risk.	[ ]	[ ]	[ ]	[ ]	[ ]
2.	Bank assesses risks by using quantitative analysis methods and / or qualitative analysis methods (e.g., high, moderate, and low).	[ ]	[ ]	[ ]	[ ]	[ ]
3.	Bank analyses and evaluates the opportunities that it has to achieve objectives.	[ ]	[ ]	[ ]	[ ]	[ ]
4.	Bank's response to analysis risk includes assessment of the costs and benefits of addressing risk.	[ ]	[ ]	[ ]	[ ]	[ ]
5.	Bank's response to analysis risk includes prioritizing of risk and selecting those that need active management.	[ ]	[ ]	[ ]	[ ]	[ ]
6.	Bank's response to analyze risk includes prioritizing risk treatments where there are resource constraints on risk treatment implementation.	[ ]	[ ]	[ ]	[ ]	[ ]
7.	Bank has applied a compliance risk assessment and analysis.	[ ]	[ ]	[ ]	[ ]	[ ]

Q8. Level of Risk Monitoring

No.	Risk Monitoring	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
1.	Monitoring the effectiveness of risk management is an integral part of routine management reporting.	[ ]	[ ]	[ ]	[ ]	[ ]
2.	The level of control by the Bank is appropriate for the risk that it faces.	[ ]	[ ]	[ ]	[ ]	[ ]
3.	Reporting and communication processes support the effective management of risks	[ ]	[ ]	[ ]	[ ]	[ ]

No.	Risk Monitoring	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
4.	Bank's response to risk includes an evaluation of the effectiveness of the existing control and risk management responses.	[ ]	[ ]	[ ]	[ ]	[ ]
5.	Bank's response to risk includes action plans in implementing decision about identified risk.	[ ]	[ ]	[ ]	[ ]	[ ]

Part III

Assessment on Exchange Rate Risk and Operational Risk Management

Assessment on Foreign Exchange Risk

Please put a tick mark "[✓]" inside the box for those questions that are followed by choices and write your short and precise answer for those followed by blank spaces (i.e. open-ended questions).

1. Does your bank have training program on foreign exchange risk management?

Yes [ ] No [ ]

2. Does your bank receive training, seminar, on foreign exchange risk management courses from abroad.

Yes [ ] No [ ]

3. To what extent is the bank faced to foreign exchange risk.

1. None [ ]
2. Little [ ]
3. Somewhat [ ]
4. Remarkably [ ]
5. Very much [ ]

4. What are the primary sources of foreign risk exposure in your bank? (Tick answer)

1. Translation exposure [ ]
2. Transaction exposure [ ]
3. Economic exposure [ ]

5. Please indicate the following risk exposures in order of importance to your bank.

Statements	Very Important	Important	Average	Less Important	Not Important
Interest Rate Risk					
Credit Risk					
Foreign Exchange Risk					
Liquidity Risk					
Operational Risk					

6. What is the main currency of transaction in your bank?

USD [ ] EUR [ ] Kyat [ ] SGD [ ] JPY [ ] CNY [ ] other-------------

7. Exchange rate risk arises from?

No.	Particular	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
1.	Due to terms of trade	[ ]	[ ]	[ ]	[ ]	[ ]
2.	Due to the under development of interbank market	[ ]	[ ]	[ ]	[ ]	[ ]
3.	Foreign loans granted	[ ]	[ ]	[ ]	[ ]	[ ]
4.	Due to the exchange rate fluctuation	[ ]	[ ]	[ ]	[ ]	[ ]
5.	Political stability and Economic performance	[ ]	[ ]	[ ]	[ ]	[ ]

8. What is primary the role of Board of Directors in foreign exchange risks management?

(1). Review and approve foreign exchange risk management policies. [ ]

(2). Review periodically the foreign exchange risk management program. [ ]

(3).Ensure that an independent inspection/audit function reviews the foreign exchange operations to ensure that the bank's foreign exchange risk management policies are appropriate and are being adhered to. [ ]

(4). Ensure the selection and appointment of qualified and competent management to administer the foreign exchange function. [ ]

(5). Outline the content of foreign exchange risk reports to the board. [ ]

(6). Others(Pleasespecify)____

____

9. How often does your bank measure the success of its foreign exchange risk management policy?

1. Daily [ ]
2. Weekly [ ]
3. Monthly [ ]
4. Quarterly [ ]
5. Bi-Annually [ ]

10. Please indicate the roles of Management in foreign exchange risk management? (Tick Appropriate)

No.	Statement	Very Important	Important	Neutral	Less Important	Not Important
1.	Developing and recommend - ding FX risk management policies for approval by the Board of Directors					
2.	Establishing procedures for accurately measuring realized FX trading gains and losses					
3.	Establishing and implement - ting procedures governing the conduct and practices of FX traders					
4.	Reporting comprehensively on FX risk activities to the Board of Directors					
5.	Other (Please specify)					

11. What factors does your bank consider when selecting the hedging technique?

1. Cost [ ]
2. Suitability to Risk [ ]
3. Skill and Experience of Staff [ ]
4. Availability [ ]
5. Other (Please specify)_________________

12. Which kind of hedging techniques is your bank using to manage foreign exchange risk? Please tick the correct answer.

1. Cross-currency swaps [ ]
2. Netting [ ]
3. Leading and Lagging [ ]
4. Options [ ]
5. Other [ ]

13. How often does your bank use Forecasting of exchange rate movements on strategy risk management? (Tick as appropriate)

    1. Regularly used [ ]
    2. Occasionally used [ ]
    3. Not used at all [ ]

14. Please put your answer regarding the importance of FX Risk Management (tick as Appropriate) 1:Strongly Disagree, 2:Disagree, 3:Neutral, 4:Agree, 5:Strongly Agree

No	Questions	1	2	3	4	5
1	The effective management of foreign exchange risk is central to your Bank's performance					
2	Application of FX risk management techniques reduces costs or expected losses to banks					
3	Effective FX risk management is one of the main objectives of your bank					
4	There is significant board and senior management involvement in the FX risk management in your bank					
5	The banks management regularly reviews the organizations performance in managing its FX risk					
6	It is important to continuously review and update risk management techniques					
7	There is a common understanding of foreign exchange risk management across the bank					
8	Level of control by your bank is appropriate for the foreign exchange risk that it faces					
9	Banks makes periodic and systematic assessment of transaction, translation and economic exposure					
10	Bank hedges with an aim of profiting from foreign exchange rate Movements					
11	Banks forecast appreciation and depreciation of relevant currencies during their planning horizon					
12	A banks financial decisions are influenced by its foreign exchange Decisions					
13	The banks staff's expertise levels towards foreign exchange risk management is adequate					

15. It you have further comment on risk management strategies and techniques what should the bank do to strength its risk management practices? please indicate in the space provide below:

____

____

____

Assessment on Operational Risk Management

Q .1 Operational risk arises from?

No.	Question	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
1.	Errors related to management incompetence or negligence	[ ]	[ ]	[ ]	[ ]	[ ]
2.	Operational failure at suppliers or outsourced operations	[ ]	[ ]	[ ]	[ ]	[ ]
3.	IT problems (hardware or software failures, computer hacking or viruses etc.)	[ ]	[ ]	[ ]	[ ]	[ ]

Q2. Assessment on Internal Operation Risk Management Practices

No.	Level of Understanding in People Risk	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
1.	Employees have the necessary skills to perform their work effectively	[ ]	[ ]	[ ]	[ ]	[ ]
2.	Employees possess ethical behavior necessary to mitigate the bank against people risk	[ ]	[ ]	[ ]	[ ]	[ ]
3.	Staff have sometimes failed to comply with policy requirement of the Bank	[ ]	[ ]	[ ]	[ ]	[ ]
4.	The bank has recorded cases of dishonesty among its employees	[ ]	[ ]	[ ]	[ ]	[ ]
5.	Some officials with a supervisory responsibility abuse it for their personal benefit	[ ]	[ ]	[ ]	[ ]	[ ]
6.	Bank has a wide diversity of employees in the working environment	[ ]	[ ]	[ ]	[ ]	[ ]
7.	Bank gives training to staff in order to avoid error	[ ]	[ ]	[ ]	[ ]	[ ]

	Level of Understanding in Process Risk	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
1.	Bank has experienced unreliable hardware and software issues.	[ ]	[ ]	[ ]	[ ]	[ ]
2.	Bank has no clear acceptance of accountability or responsibility for business process	[ ]	[ ]	[ ]	[ ]	[ ]
3.	The evaluations of new processes or changes to existing processes are not done at the development phase.	[ ]	[ ]	[ ]	[ ]	[ ]
	Level of Understanding in System Risk and IT Risk	**Strongly Disagree**	**Disagree**	**Neither Agree nor Disagree**	**Agree**	**Strongly Agree**
1.	Bank has experienced system disruptions which have interrupted business	[ ]	[ ]	[ ]	[ ]	[ ]
2.	Reasonable security measures have been put in place to prevent unauthorized access to the banks network	[ ]	[ ]	[ ]	[ ]	[ ]
3.	Staffs are given good practice guidance on password security	[ ]	[ ]	[ ]	[ ]	[ ]
4.	Internal Audit Department regularly conducts system audit.	[ ]	[ ]	[ ]	[ ]	[ ]
5.	The volume of transactions consistently exceeds the technology’s ability to deliver.	[ ]	[ ]	[ ]	[ ]	[ ]
6.	Functionality of systems have not been aligned with business objectives.	[ ]	[ ]	[ ]	[ ]	[ ]
7.	Bank has experienced cases of disastrous events that have caused damage to the bank resources.	[ ]	[ ]	[ ]	[ ]	[ ]

Q3. Assessment on External Operation Risk Management Practices

No.	People Risk	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
1.	Clients have failed to comply with contractual arrangements.	[ ]	[ ]	[ ]	[ ]	[ ]
2.	Changes / restrictions in the regulatory environment have a significant impact on the bank.	[ ]	[ ]	[ ]	[ ]	[ ]
3.	Bank has had initiatives of competitors that have influenced product offering	[ ]	[ ]	[ ]	[ ]	[ ]
4.	Some actions of countries or governments impact on the business directly or indirectly.	[ ]	[ ]	[ ]	[ ]	[ ]

Q4. Factors Affecting Internal Operation Risk of MFTB

Particular	Yes	No
Training		
Lack of goodwill from top management		
Lack of knowledge by staff		
New rules are very customer friendly		
Outdated policies		
Psychosocial factors of employee		
Review of rules		
Staff turnover		
System failure		
Work experience		

Q5. Factors Affecting External Operation Risk of MFTB

Particular	Yes	No
Need for branding and advertisement		
Change in technology and legislation		
Bad customers attitude		
Dynamic rules that keep changing		
Emerging technology		
Integration of system with third parties		
Social and environmental factors		

Q.6 Any suggestions on the improvement of current Risk management system of the bank

____

____

____

Thank you for taking your valuable time to complete this survey with your kind cooperation.