

## ABSTRACT

Financial Risk Management, in its broad sense is a theoretical methodology that is developed to assist banks to forecast potential financial risks and build in the precautionary measures that would allow banks to quantify and qualify the risks and build in inherent mechanisms to allow the banks to cope, in the eventuality of such risks take place altogether.

The paper at hand attempts at identifying the mechanisms and procedures that Palestinian Banks have structures to allow them to cope with such risks as generally apply to any banking entity, with a variety in intensity of one risk compared to other and from one bank to another, depending on the political environment and the bank trading involvements.

By introducing the important concepts in risk management and giving a broad overview of the field of financial risk management, the paper sets the scale for two basic objectives:

1. Measuring first the extent of Palestinian Banks familiarization with the issues of financial risks and if they apply to the Palestinian Banks.
2. Familiarise with the proven measures, management mechanics and procedures built in the banking management systems and the extent of use to benefit the risk management efforts.

Risk types and risk management technique in the areas of credit risk (long and short term), market risk, interest rate risk, retail and liquidity risk and foreign exchange risk are items of financial risks that are addressed in the paper in relation to the targeted banks mode of attendance to.

The methodology adopted for achieving the targeted objectives heavily relied on field investigation through reciprocal interviews with a cross sectional representation of the various operating banks in the Palestine. To obtain accurate data as can be achieved a predetermined questionnaire is put to use. Various aspects of the questionnaire addressed various risk issues. The responses gave the level of attendance built in the banks systems of management.

The study shows that the banks in Palestine are lacking and have poor risk management system for monitoring, measuring, and mitigating risks. There's no department responsible to identify, monitor, control financial risks. The banks did not have internal guidelines, rules and concrete procedures. The study identifies that the banks established a relatively good risk management process related to credit department such as loans approval, limited to individuals. The study identify that bank management has a responsibility for forecasting and quantifying risks and report such forecasts in their periodical reports. The periodical major reports produced by banks touch on credit risk report, liquidity report and foreign exchange.

The survey shows that banks in Palestine lack instrument for managing risk faced, but it identifies certain control system by the internal auditors. This is achieved by review, verification and validation of, contingency plans against loan risks defaults. There is a total lack of separation of duties yet banks have clear data back –up and files under good use and control.

*Keywords:* risk management, credit risk, market risk, interest rate risk, liquidity risk and foreign exchange risk, management procedures, financial policies