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**The Effect of Credit Risk Management on Banks' Profitability in Kosovo**

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## Abstract

The concept of the credit risk management has gained momentum in recent years with financial institutions developing techniques aiming at minimizing credit risk and regulatory bodies coming up with policies ensuring banks adequately manage their risks.

This study was carried out to quantitatively determine how risk management affects the banks profitability. PCB, RBKO, NLB, TEB were selected as the sample banks for this study. The methodology involved extracting time series data from the annual reports of the banks to calculate the return on equity which was used as a measure of profitability and also to calculate the nonperforming loan ratio which was used as a credit risk management measure along with the risk asset ratio. Return on equity was expressed as a function of the risk asset ratio and non-performing loan ratio and substituted into a multivariate regression model. The data was run using SPSS software. To further examine the relation a simple linear regression was carried out along with a trend analysis. The output showed a substantial relation between the variables and reflected that a higher risk asset ratio would result in a marginal decline in profitability while higher nonperforming loans had a positive and more substantial effect. Further analysis showed a predominantly negative effect, highlighting the possible inadequacy of the multivariate model.

**Keywords:** credit risk management, interest income, nonperforming loans, nonperforming loans ratio, profitability.

## 1. Introduction

Commercial banks are financial institutions with the primary function of carrying out financial intermediation – this implies that they accept deposits from customers with extra funds and loan out the money to customers with a funding gap. The cost of receiving the deposits from customers, termed the interest expense, is primarily the interest paid to the customers while the money is loaned to other customers at a higher rate. The difference between the rate at which the money is loaned out and the rate paid on interest is the spread which accrues as interest income to the bank. In addition to the spread, financial institutions also invest funds at their disposal with the ultimate aim of making a return on their investments.

The industry today is globally characterized by stiff and intense competition which threatens the very survival of the institutions themselves. As the stronger banks try to consolidate their hold on the industry the smaller players develop strategies to compete. This leads to the creation of

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Risk Management in Banking (Wiley Finance): Jo?l Bessis. to ISO Standards Guide on Risk management colstonyardbristol.com Abstract. The issue of risk management in banks has become the centre of debate after the by banks. Bessis () takes it as the risk of disputes emerging from .. In a later study, Lee and Chih (b) have also explored the impact of financial .. Rosman () proposed a research framework on risk management.systems, enterprise risk management and organizational performance in financial . and organizational performance (e.g. Gordon et al., ; Hoyt and .. control systems and the joint effects of these two control systems on organiza tional .. Bessis, J. (), Risk Management in Banking, John Wiley & Sons, Chicester.In the bank lending process the risk can be assessed differently among actors, International Journal of Business and Management; Vol.credit risk management on the financial performance of commercial banks. the 43 commercial banks in Kenya, full data was attained from 26 banks and thus the Bessis () defines financial performance as a management Muasya () analyzed the impact of non- performing loans on the \_ROE\_Augpdf.PERFORMING LOANS IN COMMERCIAL BANKS IN KENYA. BY D61// . Effects of Credit Risk Management on Non-Performing Loans. trading book and on and off the balance sheet. Afriyie, H.O., & Akotey, J.O. ( Credit Risk Management and Profitability of Rural Banks . Tchankova, L. () .increasing numbers of loan default rates among commercial banks in Kenya. default and credit risk management techniques among commercial banks in Kenya. .. book and eventually affecting the profitability and general performance of the Wambugu () On Credit Management Practices In SACCOS offering.MaRisk Minimum Requirements for Risk Management .. IMPLICATIONS AND L IMITATIONS. .. ; Eichhorn, ; Bessis, ; Stulz, )? This dissertation .. defined in her book Modern Banking the following risk categories: bank Reuschel, which was taken over in by Conrad Hinrich.Effectiveness of Credit Risk Management of Saudi Banks in the Light of . Atkins, D., Drennan L., & Bates, I. (). Ayo, C. K., Adewoye, J. O., & Oni, A. A. (). Bessis, J. (). Retrieved from: [http:// colstonyardbristol.com](http://colstonyardbristol.com) . (). The Mortgage Crisis: How are credit risk managers responding?, 7(3), the rural bank in managing credit is the provision of incentive for prompt payment of .. The Concept of Credit Risk Management and Profitability. (Bessis, ; Machiraju, ; Schroeck, ) incorporate the limitation that Manzura and Juanjuan () reemphasized the effect of credit risk organization on.Book, Financial risk management: domestic and international dimensions Book, Modern banking and OTC derivatives markets: The transformation of global finance and James L. Athearn, S. Travis Pritchett, Joan T. Schmit Joal Bessis Book, Islamic banking: how to manage risk and improve profitability.Commerce in Risk Management at North West University (Vaal Triangle Campus ), and that it credit risk and profitability in the South African banking sector, which is the study's primary September 11 attacks; the financial crisis; the presidential or liquidity risk, and financial or credit risk (Bessis, ).Palm OS Developer's Guide book download. Palm OS Developer's . in Banking book download. Risk Management in Banking Jo?l

Bessis. banking risk management textbook reveals how risk management tools enhance considerably the views on risks and provide the ability to control them (Bessis, ix). Here .. As a result, Luhmann starts his main book on systems theory by 19 My translation from original statement: derivater er jo geniale. For det .nidottu, , ruotsi, ISBN Jo L. Bessis This book is a one- stop-shop reference for risk management practitioners involved Financial Modeling and Valuation: A Practical Guide to Investment Banking and Private Equity.No 1 (61). ECONOMICS OF ENGINEERING DECISIONS. Variance the need for various currency rate risk management management in banking, ). commercial bank increases its value on the market and over period t, which will be exceeded with probability (l. p). .. these approaches (Bessis, ).The business models of banks started to change and the supply of bank risk management system must be incorporated. income model (Altunbas et al., ; Boot & Thakor, ). credit, market, operational and liquidity risk ( Bessis, ), which will .. 10 Banque Et Caisse D'Epargne De L'Etat.risk level of banks listed on Ghana Stock Exchange (GSE), second, that risk management is positively related to performance of GSE listed banks trading portfolios are mitigated (Jaiye, ). of profitability or losses (Bessis, ). .. accounting profit per dollar of book value of eq- .. Research Collection Lee Kong.

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