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FACULTY OF ECONOMICS - MASTER STUDIES

DEPARTEMENT: FINANCIAL MARKETS AND BANK

MASTER THESIS

THEME:

**MANAGEMENT OF BANKING RISKS, AS A PRECONDITION OF  
BANKING STABILITY IN KOSOVO**

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## INTRODUCTION

In the global modern environment the process of managing risk is a very complex and dynamic process. It requires continuous investigation in order to understand the reasons of change. In this context it is important to analyze, understand and investigate the process of managing risks in local contexts in order to maintain, strengthen and create financial stability in our country. Role and importance of the process of managing risks is crucial in the establishment of banking profitability. Therefore in general the researches interconnected with the banking system and especially with management of risk are epic for maintaining financial stability in our country.

In nowadays business risk plays an important role. Almost in every business decision it's required from managers and executives to balance the risk and return. Effective management of business risk is essential in the success of company. In banking system the management of risks takes a special importance, where regulators are responsible for preventing failures of the banking and economic system. Although banks have many similar risks with other businesses, the main risks that specifically impact in banks are:

Risk of the loans

Risk of liquidity

Risk of interest norms

Risk of the market

Risk of the foreign coin

Operational risk

Banks should manage them carefully since a non effective managements of risks, it can lead to the failure of the bank. If a bank is perceived that is in a weak financial position, depositors will withdraw their funds, other banks will not loans, on the other hand the bank itself it will not be able to sell the letters with debt value in financial markets. All of these would worsen even more its financial situation.

The fair of banking failing is one of the main reasons of the loans crises of the year 2008. Usually the risk is taken as data. The cash flows of a business are exposed to the changes that can't be provided in the expenses of the first materials, norms of taxes and other variables are different. It is often thought that the manager in this case can't do anything. But this is not correct, and up to a point the managers can solve the risks, which the business will take over itself.

Banks are financial institutions which globally deal with the cash trading and valuable letters, with the only purpose to place the capital in those economic segments and activities which bring the maximum of profit and with the minimum of risk. Owners of the banking capital are very

interested to place their capital in those activities which in the right moment and right quantity need a new capital with a minimum chance of risk. The owners of banks want these requests from the management of the economic subject.

### Importance of research

Investigation of risk management is one of the main challenges which the researchers are faced today. Except the importance that it has in the academic field, we should pay special importance to the effects of risk management in the practical field where the consequences of this field in the practical aspect have an important connectivity with the growth and development of banks as profitable institutions. So this research will show important results which will have implications in the practical aspect, especially will show the actual condition of the banking system and the way that they manage the risk.

### Targets of the study

Targets of this study are:

Which is the role of risk in development of the business and banking activity?

Which is the report between the management of risk and liquidity?

Which is the report between the financial consistence and loans management?

Which is the role of risk management in the application of loans?

## CONCLUSIONS AND RECOMMENDATIONS

Banking institutions are the most powerful mechanisms of the free economy of the market. The development of the banking system since the antiques times and the passage of a deep transition in a structural meaning, principled, fundamental etc is an evidence related with the importance of banking system continuity in global economy. Recent technical and technological events have increased the functionality of the banking system, they have improved the efficiency, have increased the professionalism and operative and professional capacities in managing the inner functions of the bank. Management of the risks as a precondition for a good banking stability in our country is one of the main topics in maintaining a healthy economy with a high durability. In special order nowadays where the banking financial system has been challenged deeply by the global financial crises. Therefore the study and analyze of risks which the banking system in Kosovo is faced would create strong preconditions of understanding, study and anticipation of factors which may impact in the destructivity of banking sustainability. Therefore in this paper are discussed and treated parts of a special importance related with banking risks, and also have been treated a huge number of international literatures related with managing risks. Managing banking risks in most theories of different authors have had a big treatment in the emphasis of importance and strength which they can have in cases of operational banking activity development. From all what's been discussed in this paper, we can conclude that the managing of risks in banks of Kosovo has an incredible awareness and commitment which comes as a result of knowing the importance of this paper. Most parts of banking risks in this paper is oriented related with credit risks and banking liquidity which have a huge impact in all banking operations. Functioning of loans is one of the main banking functions where the whole activity and profitability come as a result of the function of loans. Purpose of banks is to maximize the loans where this would be capitalized in a running profit which provides a more proactive approach in the market. Therefore a good management of banking loans is a strong bond of managing risks which could be shown and create a disability in the financial banking system. A bad management of loans as well would directly effect in the debt growth and that it has an important impact in the maintain of banking liquidity. Being liquid is one of the bank's intentions which enables the Continuous Operation in the local market. This function is extremely essential and necessary in the maintain of banks' competence in the market of Kosovo. So the credit function largely determines the banking liquidity. Therefore banks today see the system of loans as one of the biggest risks and that's the reason why they have discussed this issue many times putting a set of criteria to prevent the possible risks which could show up as a result of not returning the loans. Such a thing has been confirmed to the study cases in two local banks X and Y. Of a particular importance is the part of study cases where the bank in study, in a very similar way have created rules, policies and procedures to manage the banking risk in order to maintain the stability because a crossover in the banking system would put in risk the whole economic system made in our country. From parts of study cases we can conclude that these two banks have a good way of organizing which necessarily increases the growth of possibility for a qualitative management of risk and it expresses explicitly the stable work which

is being done in these banks. Also by this study case it can be concluded about the discipline that has been showed at the professional level in putting the criteria and rules for customers who express willingness to take bank loans and the conditions that they should have meet so that their request for loans to be approved. So, it can be said that banks in our case of study have a good financial stability and also have a high operative efficiency in managing risks. This study case will participate in the scientific part focusing in the research and analyses of one of the most important functions of the bank which is managing risks in order to maintain the financial stability. So this paper welcomes for more comprehensive work which would be complementary arguments in managing risks in the banking stability. Considering the role and importance of the banking system in Kosovo and the effects which would be produced in the whole economic system it's necessary to offer some suggestions about continuity of banks in the maintenance of financial stability.

To continue with the policies of maintenance of final consistence putting important criteria related with the loan system.

To expand the opportunity of deepen of cooperation with small and average businesses creating spaces for financial support to the extent of not risking the financial banking stability.

To encourage governmental institutions to be guarantor of issued loans for small and average businesses.

Banks should create a more powerful system related with the maintenance of liquidity and management of risk.

To create a special department which would make the assessment of risk of the failing to return the loans by businesses in order to reduce the risk and increase the liquidity.