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"The Effect of Credit Risk on Banks Profitability in Egypt": Does Cyber Risk Matter?

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Abstract

In the ever-changing environment of banking and finance, it is important for both the institutions and the regulators to understand how one risk factor influences the other and its effects on profitability. This study aims to investigate whether credit risk has an effect on Egyptian banks' profitability while using cyber risk as the moderator variable. The study adopts a quantitative research design that uses panel data drawn from 17 Egyptian commercial and public banks during the period of 2017–2022. The study's findings indicate that cyber risk has a strong moderating effect on the relationship between credit risk and bank profitability, reducing the negative impact of credit risk on bank profitability. Specifically, whereas an increase in credit risk reduces bank profitability, an increase in cyber risk offsets this decrease in bank profits. Based on these findings suggest that banks exposed to greater cyber risk exhibit a higher quality of risk management, which counteracts the negative impact of credit risk on profitability. The study fills a void in the existing literature as it investigates several risks at once, even though this approach raises certain limitations in terms of testing. Therefore, it provides new insights and suggestions for banking institutions and policymakers in the context of emerging Egyptian markets to mitigate future uncertainties.

Keywords: Credit risk, Fintech, Cybersecurity, Cyber risk, Banks profitability