THE IMPACT OF CREDIT RISK MANAGEMENT ON PROFITABILITY OF COMMERCIAL BANKS

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Abstract

Banks today are the largest financial institutions around the world, with branches and subsidiaries throughout everyone's life.However, commercial banks are facing risks when they are operating.Credit risk is the one of the significant risk that banks face, considering that granting is one of the main source of income in commercial banks in Sri Lanka.Thereforthe management of the risk related to that credit affect the profitability of the banks.

The main purpose of the research is to investigate if there is a relationship between credit risk management and profitability of commercial banks in SriLanka.Also aim to find out if the relationship is stable or fluctuating. In the research model, ROE and ROA are measurement tools of profitability and NPLR and CAR are defind as tools of credit risk management. This study covers 24 commercial banks in Sri Lanka, and 24 commercial banks were identified as the sample. The analyze has been made the credit risk management and its impact on profitability capacity during 2010 to 2014 (04 years) financial year of commercial banks in Sri Lanka.The research data collect from annual reports of sample banks.Correlation and multiple regression analysis are used for analysis.

The findings reveal that positive relationship between credit risk management and profitability. And also credit risk management is significant impact on profitability of commercial banks, from 2010 to 2014, the relationships between all the representations are not stable but fluctuating.

Key words: Credit Risk Management, profitability, commercial Banks, Capital Adequacy Ratio (CAR), Non-performing Loan ratio (NPLR), Return on assets (ROA), Return on Equity (ROE)