

Credit Risk Management and Its Impact on Performance of Finance Companies in Sri Lanka

E.A.K.E.Gunathilaka

Department of Finance, University of Kelaniya

Abstract

The main objective of this study was to establish the impact of credit risk management and Financial Performance of finance companies in Sri Lanka. The study had secondary objectives to identify how non-performing loans affects finance companies performance in Sri Lanka. The study adopted a quantitative research design which assisted to examine the impact between credit risk management and financial performance of finance companies in Sri Lanka. The sample size as well as the population of the study was 20 finance companies. This study has used four explanatory variables as credit risk indicators, loan losses or non-performing loan to total loan (NPL/TL), loan provision to total loan (LP/TL), loan provision to non-performing loan (LP/NPL), and loan provision to total asset (LP/TA) to explained dependent variable of return on asset as performance indicator .Data was gathered using a secondary source of financial annual report from Colombo stock exchange and analyzed using SPSS. The overall finding and conclusion of the study was that all the measures of credit risk management used in this study are highly significant predictors of financial performance of finance companies in Sri Lanka The credit risk management variables were found to be significant in explaining profitability of finance companies in Sri Lanka. The non-performing loan to total loan variable also found to be significant to explain the financial performance. Based on the findings another study can be conducted in Sri Lanka but should really explain expand the variables of credit risk management that affect financial performance of finance companies in Sri Lanka.

Key words: *credit risk, financial performance, non-performing loan*