

## **Impact of Credit Risk Management on Profitability in Commercial Banks in Sri Lanka**

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### **Abstract**

Credit risk management in commercial banks has become more important not only because of global financial crisis that was experiencing, but also as a crucial concept which determines banks' survival, growth and profitability. Since granting credit is one of the main sources of income in commercial banks, the management of the risk related to that credit affects the profitability of the banks. The main purpose of this study is to investigate the impact level of credit risk management on profitability in ten commercial banks in Sri Lanka during the period of 2006 to 2014. For this purpose the study employed regression analysis through SPSS. The study considered ROE (Return on Equity) as profitability indicator while Non- Performing Loan Ratio (NPLR), Lesser Prudence (LP) and Loans to Deposits (LD) are considered as credit risk management indicators. The findings and analysis reveal that credit risk management has an impact on profitability. The findings reveal that three credit risk management indicators of have a significant negative impact on profitability.

**Keywords:** *credit risk management, lesser prudence, loans to deposits, non-performing loan ratio, return on equity*