# Credit Risk Management and Financial Performance in Listed Financial Institutions in Sri Lanka

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## Abstract

Financial Institutions are exposed to different types of risks, which effect the performance and activity of these financial institutions. Credit risk is one of the most significant risks that financial institutions face, considering that granting credit is one of the main sources of income in financial institutions.

The main purpose of this study is to investigate the impact of credit risk management on financial performance in finance institutions. The study considered ROA (Return on Asset) as profitability indicator while Non- Performing Loan Ratio (NPLR), Total Loans to the Asset ratio, Capital Adequacy Ratio (CAR) are considered as credit risk management indicators. The study used secondary data of 30 financial institutions covering the period of 2012 to 2017. Data were analyzed using panel data analysis through E-Views packages. The result reveals that overall credit risk has significant impact on profitability of listed financial institutions.

**Keywords:** Credit risk, Capital Adequacy Ratio (CAR), Loans to Total Asset Ratio (LTAR), Non-Performing Loan Ratio (NPLR) and Return on Assets (ROA)