The Impact of Credit Risk Management on the Performance of Banking Sector

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The aim of this study was to analyze the impact of credit risk management on the performance of banking sector in Sri Lanka and to establish if there exists any relationship between the credit risk management and performance of commercial banks in Sri Lanka. A causal research design was undertaken in this study and this was facilitated by the use of secondary data which was obtained from the Bank's Annual reports. The study used regression analysis to analysis the data and findings have been presented in the form of tables and regression equations. The study found that there is a significant relationship between the credit risk management and performance of the banking sector. Further the study investigated that non-performing loans have positive relationship with financial performance (ROA). The analysis found that NPL and ROE have negative relationship through regression analysis that mean a unit increase in NPL, decrease ROE by 1.4. CAR and ROE have negative relationship, it can be described coefficient value is -.526. This study concludes that the credit risk management and financial performance (ROA, ROE) have significant negative relationship. The study recommends that commercial banks should try to keep their nonperforming loan at optimal level because nonperforming loan has negative relationship with profitability. Managers get higher evaluation regarding customer have ability to pay back when borrowing. This analysis suggests these banks to establish credit risk management unit for implementing best risk management practices.

Keywords: Credit risk management, Profitability, CAR, NPL, ROA, ROE