

Impact of Credit Risk Management on the Financial Performance of Listed Banks in Sri Lanka

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ABSTRACT

Introduction - The main aim of this study is to investigate the effect of credit risk management on the financial performance of listed banks in Sri Lanka.

Design/Methodology/Approach - This study employed return on equity to measure the financial performance while Capital adequacy ratio, Non-performing loan ratio, Loan to deposits ratio and Liquid assets ratio have been used as the indicators of the credit risk management of banks. The research has used only secondary data for the purpose of analysis. The annual reports of selected banks which are published in Colombo Stock Exchange were used to collect the data over the period of 10 years (2009-2018).

Findings - Multiple regression analysis was done with random effect model and E-views was used to analyse the data. The findings reveal that capital adequacy and non-performing loans have a significant negative impact with the financial performance whereas loan to deposits and liquid assets ratio have an insignificant impact with the financial performance.

Conclusion - Finally this study suggests that there is an impact of credit risk management on the financial performance of listed banks in Sri Lanka.

Keywords: *Credit Risk, Financial Performance, Listed Banks, Return on Equity, Risk Management*