Impact of Credit Risk Management on Financial Performance of Sri Lankan Commercial Banks: With Special Reference to Commercial Banks in Sri Lanka

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Abstract

In Sri Lanka, commercial banks play a predominant role in credit expansion and the provision of credit facilities. Because conditions and uncertainties are connected to the banking sector. Many types of risks are exposed to them. Among these threats, a serious threat to success is credit risk. Hence the study investigated the impact of credit risk management on the financial performance of commercial banks in Sri Lanka for a period of ten years (2010-2020) with reference to Systemically Important Banks (SIB). Moreover, study compare the impact of credit risk management and financial performance of commercial banks before and during the Covid 19 situation. The sample of the study consists of all commercial banks in Sri Lanka including two state banks and three major domestic private banks, which will be selected by considering the timing and availability of data. secondary data will be obtained from bank annual reports and Central Bank of Sri Lanka (CBSL) and the data will be analyzed using Ordinary Least Squared (OLS) regression, The Gross Non-Performing Loan (GNPL) will be used as the credit risk proxy, while the CAMELS model will be used as the performance proxy. According to the regression results, credit risk has a significant and negative effect on financial performance concerning Capital adequacy, assets quality, management efficiency, and liquidity. on the other hand, the study found that only the insignificant factor of the CAMELS model that affects the performance of commercial banks in Sri Lanka is sensitivity. However, the study concludes that credit risk remains a major concern for commercial banks in Sri Lanka because credit risk is an important predictor of bank financial performance. The findings help the policymakers in setting better performance targets and enable bank managers to allocate capital more efficiently.

Key words: *CAMELS, Credit Risk, Capital Adequacy Ratio (CAR), Non-Performing Loans Ratio (NPLR), and Commercial banks*