

The Impact of Credit Risk Management Practices on profitability of the commercial Banks in Sri Lanka

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Abstract

Banks are the largest financial institution in Sri Lanka. There are 25 commercial banks in Sri Lanka. Risk management is very essential for the banks to survive in the market. Commercial banks face different types of risks today. Such as: Credit risk, Interest rate risk, Operational risk and Liquidity risk. Credit risk is one of the most significant risks that banks face. Commercial banks face different types of risks today. Such as: Credit risk, Interest rate risk, Operational risk and Liquidity risk. Throughout these risks, credit risk is the major risk face by the commercial bank, because the major incomes of the banks align with creation of credits. Bank break down as a result of poor credit risk management practices of the banks. We have some past experience regarding these situations in our country. The main purpose of this research is to “Identify the impact of credit risk management practices on the profitability of commercial banks in Sri Lanka”. In this study it is expected to find the relationship between the variables that are described below and it is going to analyse regression, correlation and testing hypothesis to understanding the relationships between dependent variable & independent variable. Dependent variable measured through Return on Asset (ROA) and independent measured through variable Capital adequacy ratio (CAR), Loan to Deposit Ratio (LDR), Loans to Assets Ratio (LAR), Leverage ratio (LR), and Loan to Deposit Ratio (LDR). Secondary data collected from secondary sources, employed the period of 2015 to 2019. The data will be analysed using panel data regression model. The results will be of interest to bank costumers, accounting practitioners, accounting preparers, banking investors who are dealing with and seeking to deal with commercial banks in Sri Lanka.

Keywords: Credit Risk, ROA, ROE, Commercial Banks in Sri Lanka