The Impact of Credit Risk Management on Profitability of Financial Institutions in Sri Lanka

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Abstract

This study examines the impact of credit risk management on profitability of financial institutions in Sri Lanka. Return on Assets (ROA) used as profitability indicator and Gross Non- Performing Loans (GNPL), Provision for Loss Facilities / Credit Facilities ratio (PLFCF), Capital Adequacy Ratio (CAR) and Total credit interest/Credit facility Ratio (TCICF) are employed as measures of credit risk management. Secondary data were collected from 31 Licensed Finance Companies (LFCs) and 10 Licensed Commercial Banks (LCBs) in Sri Lanka for the period from 2015 to 2019. A series of statistical tests will be performed in order to test the impact of credit risk management on profitability of financial institutions in Sri Lanka. Findings of the study will provide useful insights to decision makers of Licensed Commercial Banks and Licensed Finance Companies to educate about values of Credit risk management. Empirical evidences will provide suggestions for managers of Licensed Finance Companies and Licensed Commercial Banks in Sri Lanka, how to improve the finance company's profitability by managing the credit risk faced by those financial institutions. Accordingly, they can better organize and assign their resources concerning the situation of credit risks.

Keywords: Credit Risk Management, Licensed Commercial Banks, Licensed Finance Companies, Non-Performing Loans, Profitability