

## **Impact of credit risk management on profitability of licensed commercial banks in Sri Lanka**

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### **Abstract**

Generating credit is one of the main sources of income of commercial banks around the world. The management of credit risk related to that credit impact the profitability of the banks. The main objective of the study is to investigate the impact of credit risk management on profitability of licensed commercial banks in Sri Lanka. For the purpose of this study ten licensed commercial banks were selected as the sample and secondary data have been collected from annual reports for six years period from 2010 to 2015. The analysis of data was done using descriptive statistics and regression models. Return on Asset and Return on Equity have been identified as profitability variables while Non-Performing Loan Ratio, Capital Adequacy Ratio, Loans to Asset Ratio, and Loans to Deposit Ratio and Total Asset as credit risk management variables. The variable Return on Equity has higher variability in dependent variables and Loans to Deposit Ratio has a higher variability in independent variables while Total Asset has a lower variability in accordance with descriptive analysis. The study found that Loans to Deposit Ratio has positive significant relationship with Return on Asset and Total Asset has a positive significant relationship with Return on Equity. All other variables have no impact because their relationship is insignificant.

***Keywords:*** *Credit risk management, profitability.*