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"IMPACT OF CREDIT RISK MANAGEMENT ON THE PERFORMANCE OF COMMERCIAL BANKS IN PAKISTAN"

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Abstract

In this fast growing technology phase organizations are also evolving according to the market and the technology. Banks today are the most and leading financial institutions which directly affected the overall economy. They have many different subsidiaries all around the world. However, besides all these technology and the contribution of banks towards the economy still banks does have different type of risks in their operations. These risks are market risk, credit risk, interest rate risk etc. Among all these risks, credit risk is the most sensitive and important risk. As we know that credit is the main source of earning for commercial banks so for that reason banks need to have a proper credit risk management system because credit risk directly affects the profitability of commercial banks. This research will provide the guidelines to the stakeholders of commercial banks that what they need to do to minimize or avoid credit risk in banks.

The main purpose behind this study is to find that either there is any relationship between credit risk management and the performance of commercial banks in Pakistan. For this purpose, ten largest commercial banks of Pakistan has been chosen. The data has been collected from the financial statements from the year 2011 to 2015 in which different ratios has been calculated as the indicators. These ratios are: CAR, NPL, ROA, ROE and LEVERAGE ratios. There are six hypotheses which have been made for this research and two tests have been used to check the relationship i.e. two-tailed regression analysis and bivariate correlation. Due to which it has been found that either the relationship is significant or not.

The results shows that there is a positive relationship between credit risk management and the performance of commercial banks in Pakistan as the CAR ratio has a positive relationship between ROA and ROE as well. Whereas Leverage ratio has a positive relationship between ROE and negative relationship with the ROA. It has been found that NPL ratio has a negative relationship between ROA and ROE.

Key Words: Credit risk management, Profitability, Commercial banks, CAR, NPL, ROA, ROE and Leverage ratio.

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