

**THE ASSOCIATION OF CREDIT RISK AND FINANCIAL
PERFORMANCE IN TEN PRIVATE COMMERCIAL
BANKS OF PAKISTAN**

By

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**The association of credit risk and financial performance in ten private commercial
banks of Pakistan**

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Abstract

Credit risk is a perspective that a person who have taken debt from the bank or related party fall flat in making obligations on conform expression. The sources of credit risk are many & diversified majorly cetagorized as loans, interbank & foreign exhchange proceedings, trade related financing, bank's acceptances, settlement of transactions, derivatives and addendum of commitments and gurantees.

Purpose of the study: The purpose of this study is to analyze & examine the importance of credit risk in the commercial bank's financial performance. In some contexts, it is to be stated like the prospect created by credit events resulting into the loss of remaining loans, partially or completely. The credit risk of commercial banks can hit many areas of development in the bank but the mode of research is confined related to association & crafting an analysis in between the credit risk paramters and the proxies of the financial performance in the commercial bank of Pakistan.

Research Method & Sampling: The study is directed to establish an association in the credit risk proxies and the proxies that control the dependent study variable, the financial performance of the commercial banks in Pakistan. The research sampling contain ten private commercial banks that have been selected for the time horizon of 2011 to 2016. The data has been collected through financial & annual reports of the commercial banks and from the State Bank of Pakistan official webpage. The statistical tests applied in the study are descriptive statistics, regression & multicollinearity analysis and correlation analysis for

evaluating the association of credit risk & financial performance in commercial banks of Pakistan.

Findings of the Research: The study suggest that there is a significant positive relationship between credit risk & financial performance of commercial banks. Capital to risk-weighted assets ratio, non-performing loan ratio, financial leverage ratio, bank's size and net charge off ratio have significant correlation between the financial performance of the commercial banks and these proxies are appropraite proxies for estimating the credit risks elements in the commercial bank.

The investment loss reserve ratio and advance to deposits ratio have no significant impact on the financial performance of the commercial banks in Pakistan as these are not suitable in analyzing and evaluating the credit risk in commercial banks of Pakistan.

Practical Implications: The study will help the banks to analyze and take more preventive measures in examining credit appraisals & risk profiles for their businesses while on the other hand it will help the other researchers to open new dimensions in the study that will help in improving the prospects towards more secure and sound ways of lending in future & take effective measures to reduce risk.

Keywords: *Credit risk, financial performance, commercial banks, capital to risk weighted assets ratio, non-performing loan ratio, financial leverage ratio, net charge off ratio.*