

Abstract

Banks today are the largest financial institutions around the world, with branches and subsidiaries throughout life. However, commercial banks are facing risks when they are operating. Credit risk is one of the most significant risks that banks face, considering that granting credit is one of the main sources of income in commercial banks. Therefore, the management of credit risk affects the efficiency of banking financial performance. The aim of the research is to provide stakeholders with accurate information regarding the credit risk management of commercial banks with its impact on profitability performance.

The main objective of the research is to investigate the impact of credit risk management on profitability performance of commercial banks in Egypt. In the research model, ROE and ROA are defined as proxies of profitability performance while NPLR, LLPR, LAR and CAR are defined as proxies of credit risk management. The research collects data from the 12 commercial banks in Egypt from 2010 to 2014 and formulates ten hypotheses which are related to the research question. A series of statistical tests are performed in order to test if the effect exists.

The findings reveal that credit risk management does have significant effects on profitability of commercial banks. Between the four proxies of credit risk management, NPLR, LLPR, LAR has a significant effect on the both ROE and ROA while CAR has an insignificant effect on both ROA and a significant effect on ROE. In addition , I were unable to find a significant relationship between size of the bank as a control variable and dependent variables in terms of (ROA, ROE).