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APPLICABILITY OF THE RISK MODEL IDENTIFIED BY BASEL FRAMEWORK ON ADVANCING FINANCIAL PERFORMANCE.

(Special Reference To Licensed Commercial Banks In Sri Lanka).

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ABSTRACT

Functions in the financial sector arise various risks due to the uncertainty of the several situations. This study expected to investigate the applicability of risk model identified by the Basel framework on advancing financial performance of Commercial Banks in Sri Lanka. The study was conducted with the objective of identifying whether there is an impact of risks in BASEL framework on the financial performance of commercial banks in Sri Lanka and to develop a "New Risk Model" including other risks which have not addressed in the BASEL framework. A sample of 10 banks were selected out of the 26 licensed commercial banks using assets based sampling method. This study used both primary and secondary data and the Primary data was collected from in-depth interviews using a semi structured interview schedule and the secondary data was collected from annual reports of the selected banks. The Mix methods approach was used in data analysis. The impact of risks in BASEL Framework on financial performance was measured by a panel data regression analysis using 100 observations covering 10 companies for 10 financial years and the thematic analysis was used to identify the risks which have not been addressed by the BASEL Framework. The results revealed that the risks in the Basel Framework which have an insignificant impact on the financial performance of commercial banks in Sri Lanka but, the Capital Adequacy Ratio has a significant impact on financial performance. Further, IT risk, Reputational Risk, Security Risk, Strategic Risk, Country Risk, Legal Risk, and Competition were identified as the risks which have not been addressed in the BASEL framework. Finally, the researcher recommend that the Sri Lankan Commercial Banks to consider the other risks other than the risks in the Basel Framework.

Key Words: Basel Framework, Financial Performance, Credit Risk, Market Risk, Liquidity Risk, Operational Risk.