

### **Abstract**

*This study aims to analyze the relationship between risk management practices and financial performance in the Islamic banks in Sri Lanka. In achieving this objective, the study assesses the current risk management practices of the Islamic banks and links them with the banks' financial performance. The study used both the primary data from survey questionnaires and secondary data from annual reports. For this purpose the current study selects Risk environment, risk measurement, risk mitigation, risk monitoring and internal control as independent variables while return on assets (ROA) is utilized as dependent variables for the period from year 2011 to year 2014. Seven Islamic banks and Islamic window were selected to this study using convenience sampling technique. For the statistical analyze purpose, the study used descriptive, correlation, and multiple regression model. The results revealed that independent variable factors impact on ROA of 85.4%. The further revealed that risk environment, risk measurement, risk monitoring and internal control system have positive significant level with financial performance and risk mitigation factor has no significant with financial performance. The results of the study shed some lights on the current risk management practices of the Islamic banks in Sri Lanka. By assessing their current risk management practices and linking them with financial performance, the study hopes to contribute in terms of recommending strategies to strengthen the risk management practices of the Islamic banks so as to increase the overall competitiveness in the Islamic banking industry.*

*Keywords: Risk environment, Risk measurement, Risk monitoring, Risk mitigation, Internal control*