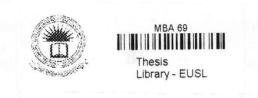
DETERMINANTS OF NON PERFORMING LOANS (NPL) IN COMMERCIAL BANKS OF SRILANKA





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Abstract

This study investigates the factors impacting non-performing loans in commercial banks in Sri Lanka. The primary objectives include determining the extent of non-performing loans and identifying their key determinants, namely credit growth, profitability, operational efficiency, equity to capital ratio, and income diversification. Additionally, the study aims to analyze the relationships among these factors and their influence on non-performing loans in Sri Lankan commercial banks.

To achieve these goals, the study utilized 120 observations from the financial statements of 12 commercial banks over a 10-year period from 2011 to 2020. Secondary data were employed to conduct descriptive statistical analyses on non-performing loans, credit growth, profitability, operational efficiency, equity to capital ratio, and income diversification using SPSS 22.0. The study also explored correlations and regressions between non-performing loans and the influencing factors.

The descriptive statistics reveal that the average non-performing loan in commercial banks of Sri Lanka is 2.24%, with a standard deviation of 1.8%. Correlation analysis indicates a negative relationship between bank-specific factors such as credit growth, operational efficiency, equity to asset ratio, and income diversification, and non-performing loans. Conversely, a positive correlation is observed between profitability and non-performing loans. Regression analysis further confirms that all banking-specific variables—credit growth, profitability, operational efficiency, equity to asset ratio, and income diversification—significantly influence non-performing loans in commercial banks in Sri Lanka.

Key words: Non-performing loans, Credit growth, Profitability, Operational Efficiency, Equity to asset and Income Diversification.

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Abbreviations

CG - Credit Growth

NPL - Non performing loan

ROA - Return on Asset