The Study on Determinants of Non-Performing Loans in Listed Commercial Banks in Sri Lanka

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Abstract

Non-performing loans (NPLs) are considered as a critical factor for any bank and has the possibility of resulting huge losses if the required attention was not given. Though many researches have been conducted on factors affecting to NPL, this is still an open area for further studies. This study investigates determinant factors of Non-performing loans (NPLs) in Sri Lankan banking sector. The survey has been conducted with a sample of 10 license commercial banks in Sri Lanka over the period of 2008 to 2017. This study focuses on the impact of bank specific factors on NPLs. Non-performing loan rates are measured through the gross NPL ratio published by banks and bank specific factors considered are Operating Expense to Income (OEI), Net Income to Total Assets (NITA), Loans to Total Assets (LTA), Loan Growth (LG), and Natural Logarithm of Size of Bank (NL). GDP growth rate (GDP) and Lending Rate (LR) have been considered as controlling variables in this study. The panel regression model has been applied to determine different bank specific factors that affect to NPL. During the study it was revealed that there is a positive correlation between loan to asset ratio and NPL rate while loan growth rate, size of the bank, operating expense to income, net income to total assets show a negative correlation with NPL rate.

Keywords: Non-performing loan ratio (NPL), Bank specific factors, Commercial banks, Sri Lanka