Effect of Loan to Deposit Ratio on Bank Profitability: Evidence from Banking Industry in Sri Lanka

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ABSTRACT

Introduction- At present banking industry is very dynamic and very competitive and bankers have to take better decisions to survive in the banking industry in Sri Lanka. This paper aims to investigate the effect of loan to deposit ratio on bank profitability with special reference to banking industry in Sri Lanka.

Design/Methodology/Approach - The study used the secondary data collected from relevant banks' annual reports for a period of five years from 2015-2019 and sample consisted of ten licensed commercial banks registered in CSE in Sri Lanka. The sample was selected based on the total asset size. The Loan to Deposit ratio included in this study as the independent variable and the dependent variable is denoted as profitability which is measured by Return on Assets (ROA). The regression analysis, descriptive statistical analysis and correlation analysis were used to analyse the data by using SPSS software.

Findings - In this study, the loan to deposit ratio of LCBs were used to measure the bank profitability and this study found that, there was a significant negative difference of ROA. According to the regression results, there is a significant influence of loan to deposit ratio on bank profitability.

Conclusion - Results indicated that when increasing loans to deposit ratio, the bank profitability will decrease. Therefore, these findings suggest that the Sri Lankan banking industry should formulate more effective and strong bank policies and regulations to stability of banking sector.

Keywords: *Loans to Deposits Ratio (LDR), Non-Performing Loan (NPL), Business Size (BS), Profitability, Banking Industry*