

## **Impact of Non-Performing Assets on Profitability of Licensed Financial Institutions in Sri Lanka**

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In the current trend of economic recession since 2018, the financial sector in Sri Lanka is an essential contributor to the economy. Banks and financial institutions need to be financially strong for this purpose. As financial intermediaries, the licensed financial institutions largely depend on the performance of their lending as a critical source of earning. Due to increasing loan failures, the share of non-performing assets has increased substantially in recent years, thereby adversely impacting their profitability. The financial institutions have become more cautious and careful when lending money to borrowers because of the rising number of non-performing assets. This study tries to comprehend the reasons for an asset to become a non-performing asset (NPA) and various corrective steps that can be taken to reduce the amount of NPA in financial institutions. The objective of the present study is to highlight the level of Non-performing Assets, and how it influences the profitability of the banks. For this purpose, the study considered sixty-three licensed financial institutions in Sri Lanka from the period of 2015 to 2022. Results of this study showed that there is a negative impact between non-performing assets and profitability.

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