

## **Impact of non-performing loans to the financial performance of commercial banks in Sri Lanka**

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### **Abstract**

Non-Performing loans are generally disadvantageous factor for any financial institution. This study examined the impact of non-performing loans on the performance of commercial banks in Sri Lanka. Covering the period of six years from 2010 to 2015, the study was carried out based on a sample of 12 banks listed in the Colombo Stock Exchange. The study specifically determined the effect of non-performing loans and provision for loan loss on the financial performance of banks that was measured by return on assets and return on equity. The study utilized secondary data obtained from annual report and accounts of the selected banks for the period under study. The data were analyzed using descriptive analysis, correlation analysis and regression analysis. The results of this study revealed that non-performing loans and loan loss provision have a negative effect on return on asset and return on equity. Further, the results showed that non-performing loan ratio and loan loss provision ratio are having negative relationship with return on equity and return on assets which were used to measure the performance of banks. Thus, non-performing loans have an adverse effect on financial performance of the commercial banks. Commercial banks should take corrective measures to minimize non-performing loans for ensuring sustainable financial performance.

**Keywords:** *Commercial banks, non-performing loans, performance.*