Qualitative Review on Impact of Technology for Sustainable Entre-Agriculture (Special Reference to Uva Province)

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Banks generally face various kind of risks such as credit risk, credit deficiency risk, portfolio risk, interest rate risk, operational risk and liquidity risk. But, credit risk is the key challenge that banks encounter because the provision of credit is the main business activity of the banks. Hence, credit risk becomes an important consideration in the banking sector. The main objective of this study is to investigate the impact of credit risk on the profitability of banking sector in Sri Lanka. The study used two measures of profitability, namely return on equity and return on assets, as the dependent variables and four measures Credit Risk indicators, Non-Performing Loan Ratio, Loan to Deposit Ratio, Net Charge off Ratio and Capital Adequacy Ratio as the independent variables. The data were collected from thirteen banks for a period of five years commencing from 2010 to 2017. The study employed Pooled Data Regression Analysis and Panel Data Regression Analysis to investigate the impact of credit disk on the profitability. The study shows that non-performing loan and loan to deposit ratio have negative and significant impact onreturn on equity but insignificant impact on return on assets. Further, On the other hand, the study found that Capital Adequacy Ratio has a positive and significant impact on both return on equity and return on assets but net charge off ratio is not a significant variable for deciding the banks profitability. Our study indicates that credit risk has a significant impact on the profitability of banking sector in Sri Lanka. The finding are useful for bankers, depositors, investors and government policy makers for decision making purpose.

Keywords: Credit risk, profitability, return on equity, return on assets, non-performing loan ratio, loan to deposit ratio, net charge off ratio, capital adequacy ratio