Impact of Loan Growth and Business Model on Bank Risk Taking: Evidence from Sri Lanka

K. G. I. Tharangani[1] and J. M. R. Fernando[2]
Department of Finance, University of Kelaniya, Sri Lanka[1,2].
Ireshatharangani95@gmail.com[1], ruwani@kln.ac.lk[2]

ABSTRACT

Introduction- Electronic banking has initiated from electronic revolution in global banking sector. Due to the flexible nature of the electronic banking system's banks could be able to offer entirely innovative banking products and services to satisfy customer needs. Thus, the main aim of this study is to investigate the impact of loan growth and business model on bank risk taking in Sri Lanka.

Design/methodology- This study employed Abnormal Loan Growth rate to measure the Loan growth, Non-Interest Income to total income and Loan to deposit ratio as the proxies for business model. The research has used secondary data for the purpose of analysis. The annual reports of selected banks listed in Colombo Stock Exchange were used to collect the data over period of 2011-2019.

Findings- Random effect model was used to analyse the data. The findings revealed that Abnormal Loan growth ratio, Loan to deposit ratio have significant positive impact with the bank risk where as Non-interest income to total income ratio have insignificant impact with Bank risk.

Conclusion- This study suggests that there is an impact of loan growth and business model on bank risk taking in Sri Lanka. Thus, managers should carefully monitor loan growth on the individual level, since high rates of loan growth are associated with of bank risk-taking.

Keywords: *Abnormal Loan Growth rate, Business Model, Risk Taking.*