

The Impact of off-Balance Sheet Activities on Bank Risks: Evidence from Licensed Commercial Banks of Sri Lanka

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ABSTRACT

Introduction: Off-Balance Sheet activities (OBS) such as Guarantees and bonds, FX sales and purchases, acceptances, letter of credits, undrawn credit lines, underwriting facilities have become essential income sources for banks. The main objective of this study is to examine the impact of OBS activities on the bank risks of licensed commercial banks in Sri Lanka.

Design/Methodology/Approach: The summation of OBS activities is the independent variable, and credit risk, market risk, liquidity risk, capital adequacy risk, leverage risk, and revenue growth risk are the dependent variables. Therefore, six different regressions are conducted. This study is based on secondary data and data were collected from eleven licensed commercial banks for the period 2011-2020.

Findings: OBS activities impact on banking risks of licensed commercial banks in Sri Lanka. Further, OBS activities positively impact on liquidity risk, leverage risk and revenue growth risk. But OBS activities do not impact on credit risk, market risk and capital adequacy risk.

Conclusion: It was concluded that OBS activities impact bank risks of licensed commercial banks in Sri Lanka. Thus, it is recommended for policymakers to develop appropriate strategies and policies to enhance the performance of the banks through dealing with OBS activities more to generate high income by giving their consideration to relevant risks.

Keywords: *Off balance sheet activities, banking industry, banking risks, licensed commercial banks*