

The Effect of Bank Specific Determinants on Profitability of the Commercial Banks in Sri Lanka

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Abstract

Sri Lanka, commercial banks play the important role of the operation on the economy and it provides financial infrastructure for economic development. Therefore, studying the determinants of bank profitability is vital to the economy. The study conducted to find out the effect of bank specific determinants on profitability in Commercial Banks in Sri Lanka. To test this objective, the bank Profitability was used as main dependent variable; it included Return on Equity. Moreover, Bank Specific determinants was utilized as Independent variable, it consists with Operation efficiency, Capital adequacy, Credit risk, Liquidity risk, Bank size, Bank Age and Deposit ratio. The study used the secondary data and that obtained from randomly selected ten (10) domestic commercial Banks' annual reports for the period 2008-2017. The descriptive analysis, Correlation analysis and Multiple Regression Analysis are used as data analysis methods. The findings revealed that Credit Risk and Liquidity Risk have significant impact on bank profitability whereas bank profitability measures in terms of Return on Equity. Furthermore, the study recommended that the banks should spend much time to maintain Credit Risk and Liquidity Risk as smoothly.

Key Words: Operation Efficiency, Capital Adequacy, Credit Risk, Liquidity Risk and Return on Equity