

## **Impact of Bank-Specific and Macroeconomic Determinants on Commercial Bank Profitability: with Reference To Systematically Important Private Commercial Banks in Sri Lanka**

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Bank-specific and Macroeconomic factors have substantial repercussions on the performance of commercial banking sector in Sri Lanka, the favorable macroeconomic environment seems to stimulate higher profits. (Weerasainghe V.E.I.W & Perera T.R, 2013). The return on Assets which is a major measure of performance of commercial banks is a function of bank-specific determinants and macroeconomic determinants. A proper functioning of banking system facilitates a rapid economic growth enhancing savings and investments. The performance of the Sri Lankan commercial banks, measured by the Return on Assets (ROA) appeared to be stronger in the recent past without facing any significant fluctuations. This paper examined the impact of bank-specific and macroeconomic determinants on the profitability of licensed commercial banks. The study uses quarterly data from 2010-2015 relating to the bank-specific and macroeconomic indicators of commercial banking profitability by carrying out a multiple panel regression. According to empirical results, Macroeconomic determinants, gross domestic production rate and inflation rate found to be having a significant impact on the bank profitability with a positive relationship between the Return on Assets of a bank. The results further show that bank-specific factors of past period performance, net interest margin, bank size, liquidity risk, credit risk and capital adequacy have contributed significantly to the profitability of the commercial banks. The implication of the study is that efficient management of the bank-specific factors and implementation of favorable economic policies lead to an economic growth can contribute immensely to uplift the performance of the banking industry in Sri Lanka.

**Keywords:** ROA, Licensed commercial banks, GDP, Profitability, Risk, Bank-specific factors, Macroeconomic factors