

**The Determinants of Profitability in the Banking Industry:
An Evaluation from Licensed Commercial Banks and
Licensed Specialized Banks in Sri Lanka**

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Abstract

The banking sector in Sri Lanka plays a major role in the overall in financial and economic development. Also, the profitability of the banking sector is very important for the stability of the country's finance sector. This study investigates the factors that determine the profitability of the banking industry in Sri Lanka. Most of the literature on determining bank profitability is based on data from banks in developed countries, and several studies provide evidence of commercial banks in developing countries. This study hopes to contribute to the literature that determines the profitability of the banking industry: it is evaluated by licensed commercial banks and licensed specialized banks in developing countries such as Sri Lanka. Profitability is measured using Return on Assets (ROA). It explains bank size (BSZ), Capital Adequacy ratio (CAR), Deposits (DEP), GDP Growth rate (GDP), Inflation Rate (INF). The study examines a sample of 10 Licensed Commercial banks and 2 Licensed Specialized banks in Sri Lanka for a period of 10 years from 2010 to 2019 using the annual reports published by the Colombo Stock Exchange of Sri Lanka. This study will use the pooled ordinary least square (POLS) method to analyze the data. The empirical results will show what are the significant determinants that affecting the profitability of the banking industry in Sri Lanka.

Keywords: Bank Profitability, Commercial Bank, Specialized Bank, Sri Lanka, Colombo Stock Exchange