

Determinants of Profitability of Commercial Banks in Sri Lanka

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Abstract

This study investigates the magnitude of the impact of the bank specific determinants on the profitability of commercial banks in Sri Lanka. Banks act as financial intermediaries between money savers and borrowers. Banks therefore represent one of the most vital groups in the financial market which has crucial economic role in any economy. Banks convert deposits into profitable investments which provide acceleration to the economy. The profitability of the bank has become essential for financial stability. They can get the correct and favorable decision by analyzing these findings. This paper investigates what are the key determinants of profitability in Licensed Commercial Banks in Sri Lanka. There are 26 Licensed Commercial Banks in Sri Lanka. Among that in this paper consists sample of 13 local Commercial banks. The study uses annual data relating to the bank specific performance during 8 years period from 2012-2019. Data collects by investigating annual reports of each bank separately. There are two profitability measures namely Return on Average Assets (ROAA) and Return on Average Equity (ROAE) are included as dependent variables to make results more comprehensive. The independent variables employed are Liquidity Asset Ratio, Capital Adequacy Ratio, Cost to Income Ratio and Size of the bank as control variable. Panel data regression analysis has been used to find out the independent variables which are statistically significant in explaining the profitability measures. This study provides supporting to Government officers, Investors, University Students for their academic activities and people who prefer in economy in the country.

Keywords: Commercial Banks, Profitability, ROAA, ROAE, Sri Lanka