

The Determinants of Financial Institutions Profitability A Study on the Banking and Non-Banking Financial Institutions in Sri Lanka

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Abstract

Financial Institutions plays a major role in providing better financial services in any economy. Profitability of the financial institutions has become vital for financial stability. The purpose of this paper is to investigate the relationship between bank and finance companies-specific characteristics on profitability in Sri Lankan banking and non-Banking sector. The research is conducted using twenty-four licensed Commercial Banks and forty-one licensed finance companies in Sri Lanka as the sample out from the population. It is used the secondary data collected from published financial statement of listed in Colombo Stock Exchange (CSE) for the period of five years from 2015 to 2020. Banking and non-banking financial institutions size, Capital ratio, Loan ratio, Deposits, Loan loss provisions are considered as independent variables while Return on equity (ROE), Return on assets (ROA), Net interest margin are considered as profitability measure of this study as dependent variables. The collected data are analyzed though multiple regression analysis. The finding of study will provide information to present and potential investors for making optimal decisions on which internal factors to be considered in making investments on finance sector in Sri Lanka.

Key words: *Profitability, Capital ratio, Loan ratio, Loan loss provisions, Net interest margin*