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A statistical analysis on the share prices of two selected Sri Lankan commercial banks

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This paper examines the impact of the bank-specific determinants and macroeconomic indicators, on the share prices and the performance of two highly recognized Sri Lankan commercial banks. Basically, the bank performance means its profitability and it is measured by performance indicators. The prime performance indicators appeared in this study are Return on Assets (ROA), Return on Equity (ROE), Banks Size and the Share Price. Among these, Share Price has been considered as the most important performance indicator. In this study, two banks have been selected. Thus, the study examines the company internal factors and macroeconomic variables affecting share prices of the two banks. Internal factor is Dividend per Share and the macroeconomic variables are represented by the Money Supply, GDP, Consumer Price Index, Lending rates, Inflation Rate and the Foreign Direct Investments. Ten years of data have been employed in this study belonging to the period 2007 to 2016. Multiple linear regression is employed to identify the factors affecting share prices. Stepwise regression and the best subset regression methods are used to identify the best linear models for the two banks. Both model selection procedures resulted the same model. Further, money supply and lending rates are the only statistically significant variables, where money supply has a positive impact while lending rates have a negative impact on the share price. As a limitation, In general, share price does not reflect the performances, particularly in banking sector. Financial ratio such as profitability and solvency may have a better reflection on the long time performances. Since stock price is determined by both institutional and market behavior, it may leads to wrong conclusion in performance analysis. Moreover, results clearly indicate the distinguishable difference between the performances of two commercial banks considered under the study.

Keywords: Best subset regression, performance indicators, share price, stepwise regression