Determinants of Bank Profitability: Evidence from Sri Lankan Banks

Fonseka, W.P.H.L.[1] and Dilini Aruppala.[2]

[1]*wphashan@gmail.com;* [2]*dilini@kln.ac.lk*

Abstract

Financial institutions can be identified as one of the most important part of the financial system of any country. Among them banks play a major role in economic development of a country. Main objective of this study is to identify internal and external factors that effect on the profitability of Sri Lankan banks. To accomplish the above objective there are eight independent variables and one dependent variable is used. Those are bank age (BA), bank size (BS), operating cost (OC), capital adequacy ratio (CA), liquidity risk (LR), total deposit (TD) as internal variables and gross domestic product (GDP), inflation rate, (IR) as external variables and return on assets, (ROA) used as dependent variable. Eleven commercial banks and six specialized banks total of nineteen bank used as sample of this study for the period of ten years from 2010 to 2019. Data analysis is done using regression analysis using E-Views. Finally, the results of this study will helpful to policy makers and bank's managers to make effective and efficient decision and improve the performance of the banks.

Keywords: Commercial and Specialized banks, Return on Asset, Sri Lanka