The Relationship between Bank Specific Factors and Bank Profitability: Evidence from Licensed Commercial Banks in Sri Lanka

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Abstract

Banking sector in Sri Lanka plays a key role in the economic development. It is normally agreed that a solid and healthy banking system is a prerequisite for sustainable economic growth. The profitability of the Sri Lankan commercial banks measured by the Return on Assets (ROA). It has been performed a stronger percentage in recent compared to the other SAARC counties. In Sri Lanka, the profitability of commercial banks has not been investigated; there is no clear understanding on what internal (firm-specific) factors influence their corporate financing decision. The objective of this research is to identify the relationship between bank specific factors and bank profitability. Data is collected from Sri Lankan commercial banks in Sri Lanka for 9 years from 2011 to 2019. A panel of 12 commercial banks were incorporated for the study to improve the accuracy and reliability of the research. This paper uses the pooled Ordinary Least Square (POLS) method to analyze the data. The empirical results have found that bank size, assets management under bank specific factors have a significant influence on the commercial banks profitability in Sri Lanka.

Keywords: Bank Profitability, Licensed Commercial Banks, Return on Assets, Panel Data