

6.13 Determinants of profitability in banking sector in Sri Lanka

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ABSTRACT

Banking industry has been changed dramatically in recent past with the new technological development, legal reforms, and environmental changes. These changes have led to increase in resource productivity, increasing level of deposits, credits and profitability. However, the profitability, which is an important criteria to measure the performance of banks. Accordingly, in this paper researchers have made an attempt to identify the key determinants of profitability of the banking sector in Sri Lanka.

The objective of the study is to identify the key determinants of the profitability of selected banks and to find out what extend the selected variables describe the profitability of the banking sector. The researchers have selected Total Assets (TA), Share Capital (SC), Retained Profit (REP), Number of Branches (NOB) and Number of Products in the Portfolio (NOP) as independent variables and Profit Before Interest and Tax (PBIT) as the dependent variable.

This paper adopt quantitative approach base on Secondary data which were collected through published financial statements. The research population is banking sector in Sri Lanka and the research is based on the listed banks in Colombo Stock Exchange. The data was collected over the period of 5 years covering 2004 to 2008.

Correlation, regression, t test and ANOVA are the statistical techniques selected for analyzing the data. The result shows that the Total assets, Share capital, Number of branches and Number of products in the portfolio play a critical role in determining profitability and have positive correlation. The above independent variables collectively as a model sufficiently explain the profitability of the Banking sector.

Key words: Profitability of banking sector, Total Assets, Share capital, Retained profit, Number of branches and number of products in the portfolio.