

The Effect of Bank-specific Factors on Profitability of Licensed Commercial Banks in Sri Lanka

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Financial intermediaries play major financial roles in the economy such as create opportunities to meet demand and supply in the market and providing payment mechanisms. Commercial banks are as one of the major financial intermediaries in the country, plays a crucial role in the economy and in the resource allocation process. The objective of this study is to examine the effect of bank-specific factors, namely; capital strength (CS), bank size (BS), credit risk (CR), liquidity risk (LR), operating expenses (OEs) and customer deposits (CD) on profitability of Licensed Commercial Banks (LCBs) in Sri Lanka. Profitability has measured by three proxies, namely; Return on Assets, Return on Equity and Net Interest Margin. The panel data were used for ten LCBs during the sample period of five years from 2013 to 2017 and the required data were extracted from the relevant financial statements. Results of the present study revealed the CS is statistically significant on LCBs profitability at a 1% level for ROA, ROE and NIM. Similarly, BS is statistically significant at a 1% level for both ROA and ROE, whereas a 5% level for NIM. Moreover, LR is also statistically significant at a 1% level in each model. However, in contrast to the expectation, CR, OEs, and CD are statistically insignificant in each model. Based on these results, it is reasonable to conclude that CS, BS, and LR are the bank-specific factors of LCBs' profitability in Sri Lanka. To draw these conclusions, the researchers used only domestic LCBs operating in Sri Lanka, where it has ignored the foreign LCBs due to the unavailability of required data. Thus, future researchers are recommended to consider both domestic and foreign LCBs for their studies.

Keywords: Bank-specific factors, licensed commercial banks, profitability