



A Study on the Relationship between Internal and External Factors and Bank Profitability in Sri Lanka

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Abstract

On the factors affecting the bank profitability, only few studies have been done in Sri Lanka for determinants of licensed commercial bank profitability. Problem arises which factors and how effect on the profitability in Sri Lanka banking Sector. The main objective of this survey is to identify the factors that lead to the performance of the bank and identified the relationship of selected variables with bank profitability. The study limited to the period from 2009 to 2018 and 20 Local banks. For this study researcher uses secondary data from the bank's annual report and central bank website that operated in the years from 2009 to 2018. Statistical analysis was carried out by using SPSS computer software. This analysis contains with mean, maximum, minimum and standard deviation of each variable. In this research have used one dependent variable (Return on Assets) and eight explanatory independent variables such as There is no any impact of bank age on the profitability of the bank. Positive significant relationship between Bank Size and the Return on Assets (ROA). The results conclude that, Alternative hypotheses can be accepted. The results conclude that, there is no any impact of operating cost on the profitability of the bank. The results conclude that, alternative hypothesis can be accepted. Positive significant relationship between Liquidity Risk and the Return on Assets (ROA). The results conclude that, alternative hypothesis can be accepted. The results conclude that, there is no any impact of total deposit on the profitability of the bank. The results conclude that, there is no any impact of Gross Domestic Product Growth Rate on the profitability of the bank. A negative insignificant impact of inflation rate on profitability of banks in Sri Lanka. It reveals internal and external factors are crucial factors for bank's profitability. It should be considered in banking operations. Bank size, Bank age, Operating cost, Capital adequacy, Liquidity risk, Total deposit, the GDP Growth Rate and Inflation Rate. Normality, Multicollinearity, autocorrelation, correlation, panel unit root test and multiple regression model specification tests have been tested.

Keywords: Financial intermediation, Bank performance, Internal and external factors, profitability, Sri Lanka

