

# Specific Factors and Financial Performance of Domestic Licensed Commercial Banks in Sri Lanka

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## A b s t r a c t

This study investigated to what extent bank specific factors impact on financial performance of domestic licensed commercial banks in Sri Lanka. Explanatory variables of this study were capital adequacy ratio, operating cost efficiency, non-performing loans, bank size and liquidity. Return on assets and return on equity were treated as criterion variables to measure financial performance. The researchers collected data from published financial statements of nine domestic licensed commercial banks listed on Colombo Stock Exchange for the period of ten years from 2006 to 2015. Descriptive and inferential statistics have been used to examine the impact of bank specific factors on financial performance using STATA package. The Result of the study showed that capital adequacy ratio had positive significant impact on ROA while operating cost efficiency and non-performing loans had negative significant impact on ROA. Non-performing loans had significant negative impact on ROE while bank size had positive significant impact on ROE. However, liquidity didn't have any impact on ROA and ROE. The findings of this study may help major stakeholders of the bank to make important decisions for enhancing profitability of the bank.

**Key words:** Capital adequacy ratio, Operating cost efficiency, Non-performing loans, Liquidity, Net profit margin



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**B**asically, banking sector has an important role to play an intermediary position by receiving money as deposits from the people who have surplus fund and lending such fund to the people, who have deficit. Further, an economy of a country cannot function without a bank since they are acting as the oil for the wheels that keep the economy turning. The banking and finance sector in Sri Lanka is playing a very special and vital part for achievement of continuous economic growth of the country. Unlike banking sector in other countries in this region, Sri Lankan banking sector has grown rapidly with modernizing techniques and it is now on the sound platform. Sri Lanka has a fairly well-diversified banking system, which includes 25 licensed commercial banks consists of 13 domestic banks and 12 foreign banks and 7 licensed specialized banks. Central bank of Sri Lanka was established as an apex institution to monitor entire activities of these banking and financial sectors.