Determinants of Bank Performance: Evidence from Commercial Banks in Sri Lanka

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Abstract:- As monetary delegates, banks play out an imperative job for the working of an economy. The reason for this paper is to look at the determinants for bank execution of the recorded business banks in Sri Lanka. The examination analyzes the exhibition of the recorded business banks in Sri Lanka by utilizing the Multiple Regression Analysis for ten (10) recorded business banks in Sri Lanka for a ten-year time span from 2009 to 2018 by utilizing the factual programming, E-sees. Capital adequacy (CA), Operating expense management (O), Size(S), Credit Risk (CR), Deposits (D), Industry Growth (IG), Inflation (I), Economic Growth (EG), Market Interest Rates (MIR) are recognized as the independent variables whereas, Return on Assets (ROA) and Return on Equity (ROE) and Stock Return (SR) were distinguished as the dependent variables. Three models were consolidated in this examination to inspect the bank execution. The consequences of the investigation expressed that the working costs the board, size and stores essentially affect bank's presentation while industry explicit variable of bank industry development additionally fundamentally sway on execution. Further, macroeconomic factors of monetary development, expansion and market loan fee are fundamentally sway on execution ROA, ROE and SR as intermediary for execution of banks. The industry specific variables: industry growth and stock return, this investigation gives some fascinating new experiences to a superior comprehension of the instruments that decide the exhibition of business banks in Sri Lanka.

Keywords:- ROA, ROE, Stock Return, Industry Growth, Commercial Banks.

I. INTRODUCTION

1.1. Research Background

In economies, monetary go-betweens perform key monetary capacities, for example, installment arrangement, coordinating monetary market interest, managing complex monetary instruments and markets, giving straightforwardness to business sectors, doing chance exchange and danger the executives capacities. As monetary go-betweens, along these lines, banks assume an essential part in economies' working. (Weersainghe & Perera, 2013) The idea of benefit is more significant for monetary foundations and banks are the piece of them. Fixation, proficiency, rivalry, efficiency, and benefit are the different terms of communicated by the presentation of banks. Firms with better execution help to proceed with the steadiness of the monetary framework (Athanasoglou, Brissimis, & Delis, 2005). Within the financial context, the performance of the banking system is one of the burning issues. The banking sector performs an important economic function by providing financial intermediation through the conversion of deposits into productive investments The Bank's performance has significant consequences (effects) on investment, business growth, industry expansion and economic development (Weersainghe & Perera, 2013). Both external and internal factors have been identified which affect profitability, which is known as the most important for a bank to continue its day-to-day operations and to obtain fair returns for its shareholders. The academics and management of the bank gained interest in the research to determine the bank's performance. Solidness is more critical to the monetary framework. Thus, the presentation of the financial area is the biggest in the nation's economy (Weersainghe & Perera, 2013). High profits in the banking industry still provides financial stability.

The global banking sector witnessed some substantial developments over the past few decades, such as technology innovations and the inevitable forces which drive globalization create both growth opportunities and challenges for the banking industry to remain highly profitable in this environment of competition. These significant changes in the environment have led to incur major changes in the performance. (Weersainghe & Perera, 2013). In the recent past, Sri Lankan business banks have been fundamentally more productive than those of different nations in the district. The advancements in the financial business have prompted the expansion in asset efficiency, expanding the degree of stores, credits and benefit and lessening in non-performing resources. Nonetheless, the benefit is a significant model to gauge the presentation of banks notwithstanding profitability, monetary and operational productivity. Hence, research on the financial framework and its impacts on rivalry and benefit has significant for strategy suggestions (Weersainghe & Perera, 2013). This study expects to investigate the bank specific, macroeconomic as well as industry specific determinants of commercial banks' performance in Sri Lanka during the period from 2009- 2018.

1.2. Problem statement

Improvements in the financial area have prompted an increment in asset efficiency, an increment in the degree of stores, advances and productivity, and a decrease in non-

performing resources. Be that as it may, benefit is one of the significant rules to gauge bank execution, just as profitability, monetary and operational proficiency. Proficient administration of banking tasks to guarantee income development and productivity needs state-of-the-art information on the monetary business sectors on which the bank's benefit depends. The financial area at present appreciates various benefits over earlier years that seem to add to its capacity to produce benefits. Sri Lanka is one of an agricultural nation on the planet. At that point the Sri Lankan banking framework assumes a larger part towards the nations' monetary turn of events and the exhibition of the financial business is significant for giving monetary foundation to monetary turn of events. Subsequently, considering about bank execution is the vital key factor. Be that as it may, there are not many investigations have been finished with respect to bank industry explicit determinants of execution of recorded business banks in Sri Lanka.

Therefore, to fill this research gap the current study is conducted to examine the impact of bank specific determinants, macroeconomics factors as well as industry specific determinants of performance of listed commercial banks in Sri Lanka. Thus, the problem statement of this study can be written as follows,

What is the impact of bank specific determinants, macroeconomics factors and industry specific determinants have in determining performance of listed commercial banks in Sri Lanka?

1.3. Objectives of the study

1.3.1. General Objective
The main objective the study is to investigate the determinants of performance of the commercial banks in Sri Lanka.

1.3.2. Specific Objectives
In order to achieve the above overall objective, the below specific objectives have been formulated.
- To investigate the internal factors (Bank Specific Variables) which determine the performance of commercial banks in Sri Lanka.
- To investigate the Industry Specific Variables which determine the performance of commercial banks in Sri Lanka.
- To investigate the external factors (Macroeconomic Specific Variables) which determine the performance of commercial banks in Sri Lanka.

1.4. Research questions
To accomplish the goals, the accompanying exploration questions have been defined.
- Whether there is any impact of the internal factors (Bank Specific Variables) on the performance of commercial banks in Sri Lanka.?
- Whether there is any impact of the Industry Specific Variables on the performance of commercial banks in Sri Lanka.?

- Whether there is any impact of the external factors (Macroeconomic Specific Variables) on the performance of commercial banks in Sri Lanka.

This examination explores the determinants of execution of the business banks in Sri Lanka. There are numerous elements influence to the exhibition of the financial area. For the most part, these variables are arranged as bank explicit elements, industry explicit elements and macroeconomic components. Bank specific factors such as Capital adequacy, Operating Expense Management, Size, Credit risk and Deposits. These are internal determinants of bank performance. Industry specific variable of Industry growth. Macroeconomic factors such as inflation, GDP growth and Market interest rate. Numerous scientists in various nations have researched determinants of bank execution and they have discovered various variables influencing bank execution.

In Sri Lanka, there are not many examination works, like this exploration work completed by certain creators in various periods. But they were not considering about the industry specific factors in Sri Lankan context as my best of knowledge. To make up for this shortcoming somewhat by giving exact proof from a non-industrial nation's viewpoint, this examination endeavors to additionally investigate the presentation and audit it with industry explicit components.

Due to, it seems that the lack of studies pertaining to this area in Sri Lanka as far as concern literature survey in this study, there is a significant research gap & also the studies available will be used for further analysis. Therefore, this study generates valuable insight in the area of industry specific variable on profitability as little as known in Sri Lankan context. Further not only the book values, this study also consider the stock return as proxy of performance, which wasn't considered by previous authors.

II. LITERATURE REVIEW

Athanasoglou, Brissimis, & Delis (2005), led research by inspecting the impact of bank-explicit, industry-explicit and macroeconomic determinants of bank benefit and found that the productivity of Greek banks is formed by bank-explicit components that are influenced by bank-level administration and macroeconomic, control factors that are not the immediate aftereffect of a bank's administrative choices. However, industry structure does not seem to significantly affect profitability. The study on determinants of bank profitability was undertaken in Jordan by Ramadan, Kilani, & Kaddumi (2011) using the same variables which were used by Athanasoglou, Brissimis, & Delis, (2005). Return on Assets and Return on Equity were utilized as intermediaries to the productivity and firm-explicit, industry-explicit and macroeconomic factors were utilized as the autonomous factors in the model. In the two examinations, it was discovered that high loaning exercises, low credit hazard, and productive expense the board were decidedly identified with the benefit.

Another study was done in Nigeria to see the impact of bank-specific, industry-specific and macroeconomic indicators on bank profitability for the period 1998 -2012 (Owoputi, 2014). Findings of that study suggested the existence of the positive and significant effect of capital adequacy, bank size, productivity growth and deposits on profitability. Liquidity ratio and Credit risk have a negative and critical impact on bank benefits. Notwithstanding, there is no proof is found on the side of the impact of industry-explicit factors. Also, inflation rate and interest rate are negatively and significantly related to bank profitability, as expected. Abdullah, Parvez, & Ayreen (2014), examined the bank-specific, industry-specific and macroeconomic determinants of 26 DSE listed bank's profitability in Bangladesh from 2008 to 2011. The observational outcomes showed that the productivity of the Bangladesh banking area is controlled by bank size, greater expense proficiency, capitalization, and higher focus whether or not ROA or NIM is utilized as the dependent variable. Credit danger and ROA have a negative connection, though the relationship with NIM is positive. Swelling is fundamentally identified with NIM yet not with ROA and work profitability and nontraditional action positively affects ROA as it were.

In Sri Lankan context, Weersainghe & Perera (2013) conducted a study utilizing quarterly information identifying with the bank-explicit and macroeconomic markers in Sri Lanka during the time frame 2001-2011 and found that, the liquidity and working expense productivity banks were contrarily identified with the business bank benefit in Sri Lankan. What's more, loan fee discovered to altogether affect the bank benefit with a negative correlation between the Return on Assets of a bank suggesting that lower financing cost situation would account a more significant level of productivity with the extension of banking exercises. According to empirical results of Samarathunga & Madurapperuma (2016), macroeconomic determinants, gross domestic production rate and inflation rate found to be having a significant impact on the bank profitability with a positive relationship between the Return on Assets of a

bank. The results further show that bank-specific factors of past period performance, net interest margin, bank size, liquidity risk, credit risk and capital adequacy have contributed significantly to the profitability of the commercial banks.

III. METHODOLOGY

3.1 Population & Sample
Listed commercial banks are selected for the purpose of this study and the sample is 10 listed commercial banks, based on the availability of data for the study. The data representing the most recent periods of 2009-2018 is taken into consideration for the purpose of ratio computation and analysis.

3.2 Data Collection
Data for this study was collected from the quantitative set of secondary sources. Bank explicit information utilized for the exact investigation are gathered from yearly reports of every one of the banks chose and the yearly reports for this examination were downloaded straightforwardly from the separate banks' sites as delicate duplicates while the business and macroeconomic information are sourced from the distributions of the Central Bank of Sri Lanka.

3.3 Conceptual Model
This study investigates the determinants of performance of listed commercial banks in Sri Lanka. Conceptual model of this study is consisting with independent and dependent variables and is graphically shown below in figure.

Independent variables are namely, Capital adequacy (CA), Operating expenses management (O), Size(S), Credit risk (CR), Deposits (D), Industry growth (IG), Inflation (I), Economic Growth (EG), Market Interest Rates (MIR) and dependent variables are Return on Assets (ROA) & Return on Equity (ROE) and Stock Return (SR). This conceptual framework shows how the study link the impact of the variables selected through the evaluations carried out,
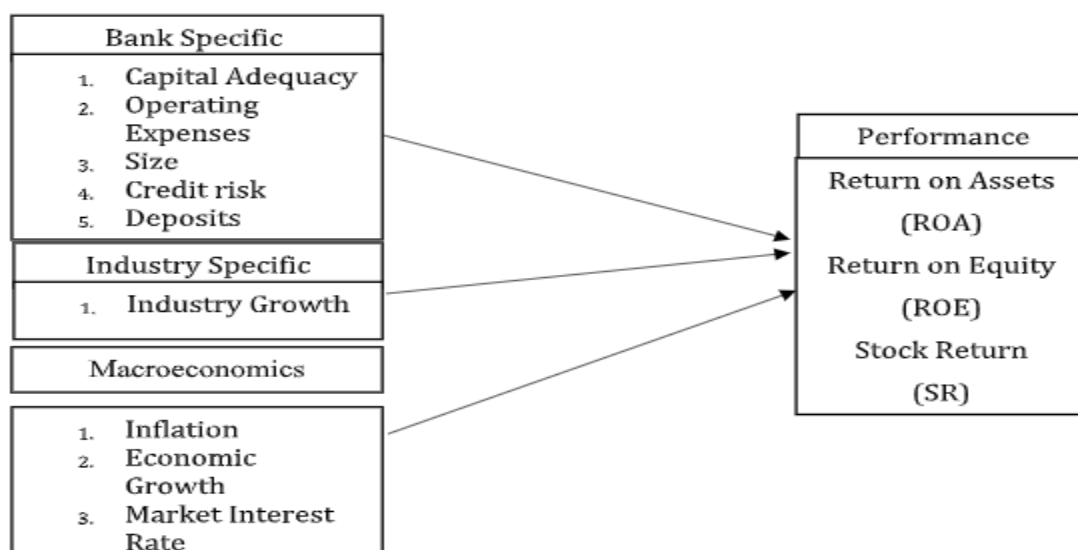

Figure 1: Conceptual Framework

Table 1: Operationalization of the variables

	Variable	Measurement	Literature
Dependent Variables	Return on Assets	Ratio of Net Profit to Total Assets	(Weersainghe & Perera, 2013), (Owoputi, 2014), (Abdullah, et al., 2014)
	Return on Equity	Ratio of Net Profit to Total Equity	(Riaz & Mehar,2013)
	Stock Return	Share price difference	
Bank Specific Variables	Capital Adequacy	Ratio of Regulatory Capital (new equity, retained earnings, etc.) to its total assets (loans, investments in stock markets, guarantees, etc.)	(Rani & Zergaw,2017) (Owoputi, 2014)
	Operating Expenses Management	Ratio of Operating Expenses to Total Assets	(Owoputi, 2014), (Abdullah, et al., 2014), (Athanasoglou, et al., 2005), (Riaz & Mehar,2013)
	Size	Natural logarithm of Total Assets	(Owoputi, 2014), (Abdullah, et al., 2014), (Athanasoglou, et al., 2005)
	Credit Risk	Total loan-loss provision divided by total loans.	Riaz & Mehar,2013 (Athanasoglou, et al., 2005) (Abdullah, et al., 2014)
	Deposits	Ratio of Total Deposit to Total Assets	(Owoputi, 2014) (Riaz & Mehar,2013)
Industry Specific Variable	Industry Growth	Ratio of the Bank Total Assets to GDP	(Owoputi, 2014), (Abdullah, et al., 2014)
Macroeconomic Variables	Economic Growth	Real Growth Rate of GDP	(Owoputi, 2014) (Abdullah, et al., 2014)
	Inflation Rate	Annual Inflation Rate	(Owoputi, 2014), (Abdullah, et al., 2014)
	Interest Rate	Real Interest Rate	(Owoputi, 2014), (Riaz & Mehar,2013)

3.4. Data analysis and Analytical Model

This study investigates the determinants of performance of the listed commercial banks in Sri Lanka. This investigation considered optional information of 10 business banks recorded in Colombo Stock Exchange throughout 10 years' timeframe which address board information arrangement. Relapse Analysis, Correlation Analysis and Descriptive Statistics are use as the Analytical instruments of the examination. The information was broke down utilizing Econometric perspectives (Eviews) bundle. Enlightening strategy and various relapse models were utilized to break down the information. The descriptive statistics examined the means and standard deviations of the determinants of profitability to reveal variability within the data. Multivariate regression model was used for the analysis. This study investigates the determinants of performance of listed commercial banks in Sri Lanka. The elements of the model are explained below.

Model -01

$$ROA = \beta 0 + \beta 1\,(CA)it + \beta 2\,(OE)it + \beta 3\,(S)it + \beta 4\,(CR)it + \beta 5\,(DE)it + \beta 6\,(IG)it + \beta 8\,(I)it + \beta 9\,(EG)it + \beta 10\,(MIR)it + \text{€}it \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots .1$$

Model -02

$$ROE = \beta_0 + \beta_1 (CA)it + \beta_2 (O)it + \beta_3 (S)it + \beta_4 (CR)it + \beta_5 (D)it + \beta_6 (IG)it + \beta_7 (C)it + \beta_8 (I)it + \beta_9 (EG)it + \beta_{10} (MIR)it + \text{€}it \ldots\ldots\ldots\ldots\ldots\ldots.2$$

Model -03

$$SR = \beta_0 + \beta_1 (CA)it + \beta_2 (O)it + \beta_3 (S)it + \beta_4 (CR)it + \beta_5 (D)it + \beta_6 (IG)it + \beta_7 (C)it + \beta_8 (I)it + \beta_9 (EG)it + \beta_{10} (MIR)it + \text{€}it \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.3$$

Whereas,
ROA - Return on Assets
ROE - Return on Equity
CA   - Capital Adequacy
O   - Operating Expense Management
S   - Size
CR   - Credit Risk
D   - Deposits
IG   - Industry Growth
EG   - Economic Growth
I   - Inflation Rate
MIR   - Market Interest Rate

IV. FINDINGS AND DISCUSSION

4.1 Descriptive Statistics

Illustrative insights investigation (Table 4.1) was done to gauge the focal propensity and changeability of the appropriation. Focal propensity comprises of mean, middle and mode. This examination breaks down mean, middle under focal propensity. Changeability estimates utilizing standard deviation. Engaging Statistics assists with understanding the conduct of the factors.

Table 1: Descriptive Statistics Results

	ROA	ROE	SR	CA	OE	CR	S	DE	IG	EG	I	MIR
Mean	0.0133	0.1228	0.0601	0.1256	0.0284	0.0099	12.0103	0.6883	0.5743	0.0541	0.0523	0.0398
Median	0.0131	0.1437	0.0000	0.0984	0.0284	0.0059	12.0434	0.7355	0.5457	0.0500	0.0620	0.0537
Maximum	0.1191	0.4021	1.0998	0.3849	0.0592	0.0493	13.9973	0.8638	0.7178	0.0910	0.0770	0.0925
Minimum	-0.0195	-0.0940	-0.9720	0.0531	-0.0016	-0.0038	9.5816	0.0615	0.4638	0.0320	0.0210	-0.1025
Std. Dev.	0.0140	0.0768	0.4043	0.0763	0.0134	0.0103	1.1218	0.1754	0.0832	0.0221	0.0196	0.0486

The Sri Lankan banks have ROA of 1%, ROE of 13% and SR of 6% over the time frame from 2009 to 2018. The standard deviation of 1%, 8% and 40% for ROA, ROE and SR individually, show that there are huge varieties in the exhibition of the Sri Lankan business keeps money with least estimations of - 1%, - 9%, - 97% and greatest estimations of 11%, 40% and every available ounce of effort for ROA, ROE and SR separately. On the bank-explicit factors, mean of CA and OE are 12% and 2% separately. The standard deviation of CA (8%) and OE (1%), with least and greatest estimations of CA (5%, 38%) and OE (0.1%, 5%) separately. All things considered, credit danger in the business is 0.9%. With a standard deviation of 1%, least and greatest estimations of - 0.3% and 4% individually, there are huge contrasts in the resource's nature of the Banks. This shows that a portion of the banks were perched on an incredibly high non-performing credits before the foundation of the Assets Management Company of Sri Lanka. The mean estimations of S (120%), DE (68%), IG (57%), uncover that they all have positive midpoints, with their standard deviations showing high unpredictability over the investigation time frame. Likewise, the unmistakable insights of the macroeconomic factors detailed in Table 4.1, show that EG (5%), I (5%) and MIR (4%) have positive midpoints during the time frame covered by the investigation.

4.2 Correlation Analysis

Pearson's correlation matrix uses to explain the degree of association between dependent variables (ROA, ROE and SR) and independent variables (Bank specific variables of CA, OE, S, CR, DE, Industry-specific variable of IG and Macroeconomic variables of EG, I, MIR).

The relationship between factors can shift from solid to feeble or none. The consequence of relationship framework comprises of connection esteem, t measurement worth and likelihood p-value.

Table 2: Correlation Analysis Result

Correlation t-Statistic Probabilit	ROA	ROE	SR	CA	OE	CR	S	DE	IG	EG	I	MIR
CA	0.2861	-0.3733	0.0492	1.0000								
	2.9563	-3.9838	0.4873	-----								
	0.0039	0.0001	0.6272	-----								
OE	-0.2210	-0.3007	0.1572	0.0353	1.0000							
	-2.2429	-3.1214	1.5759	0.3498	-----							
	0.0272	0.0024	0.1183	0.7273	-----							
CR	0.1004	0.2004	0.1509	-0.1134	-0.5161	1.0000						
	0.9986	2.0245	1.5108	-1.1302	-5.9645	-----						
	0.3205	0.0456	0.1341	0.2612	0.0000	-----						
S	0.1552	0.5061	-0.1222	-0.4469	-0.3133	0.0611	1.0000					
	1.5554	5.8093	-1.2188	-4.9459	-3.2657	0.6063	-----					
	0.1231	0.0000	0.2258	0.0000	0.0015	0.5458	-----					
DE	-0.5573	-0.0521	-0.0824	-0.7356	0.2436	-0.1455	0.1711	1.0000				
	-6.6447	-0.5168	-0.8188	-10.7510	2.4869	-1.4561	1.7195	-----				
	0.0000	0.6065	0.4149	0.0000	0.0146	0.1486	0.0887	-----				
IG	-0.1573	-0.0559	-0.2980	-0.1828	-0.2456	-0.0278	0.4494	0.1236	1.0000			
	-1.5767	-0.5544	-3.0902	-1.8407	-2.5080	-0.2753	4.9799	1.2326	-----			
	0.1181	0.5806	0.0026	0.0687	0.0138	0.7837	0.0000	0.2207	-----			
EG	0.1998	0.1303	-0.0283	0.1691	0.1714	-0.1747	-0.3122	-0.0647	-0.6705	1.0000		
	2.0182	1.3005	-0.2803	1.6985	1.7222	-1.7560	-3.2528	-0.6419	-8.9461	-----		
	0.0463	0.1965	0.7798	0.0926	0.0882	0.0822	0.0016	0.5224	0.0000	-----		
I	0.1169	0.0419	-0.1032	0.1155	0.1121	-0.1534	-0.1887	0.0294	-0.5061	0.4849	1.0000	
	1.1647	0.4152	-1.0267	1.1509	1.1164	-1.5366	-1.9026	0.2912	-5.8086	5.4884	-----	
	0.2470	0.6789	0.3071	0.2526	0.2670	0.1276	0.0600	0.7715	0.0000	0.0000	-----	
MIR	-0.0715	-0.0446	-0.2869	-0.0658	-0.0322	0.0590	0.1068	0.0736	0.4194	-0.5274	-0.3993	1.0000
	-0.7095	-0.4422	-2.9653	-0.6529	-0.3188	0.5852	1.0637	0.7308	4.5739	-6.1453	-4.3114	-----
	0.4797	0.6593	0.0038	0.5153	0.7505	0.5597	0.2901	0.4666	0.0000	0.0000	0.0000	-----

Source (Eviews output)

4.3 Regression Analysis

Table 3: Panel Data Regression Results

Explanatory Variables	ROA (Random effect)	ROE (Fixed effect)	SR (Random effect)
Constant	-0.0004	0.2357	2.0367
	(0.9872)	(0.2377)	(0.0069)
Bank-Specific Variables			
CA	0.0267	-0.2266	0.4730
	(0.3035)	(0.1844)	(0.5443)
OE	-0.0088	-0.4261	-6.2439

	(0.9356)	(0.4911)	(0.0600)
CR	-0.0097	-0.2317	5.6337
	(0.9437)	(0.8382)	(0.1758)
S	0.0041	-0.0193	0.0201
	(0.0019)	(0.4886)	(0.6044)
DE	0.0562	-0.1572	0.0561
	(0.0000)	(0.0587)	(0.8611)
Industry-Specific Variables			
IG	-0.0137	0.2424	-2.7260
	(0.5202)	(0.2557)	(0.0001)
Macroeconomic Variables			
EG	0.1593	1.0477	-8.8689
	(0.0354)	(0.0052)	(0.0002)
I	0.0811	0.4133	-6.8229
	(0.2444)	(0.2416)	(0.0015)
MIR	0.0425	0.1883	-3.6866
	(0.1207)	(0.1325)	0.0000
No. of observation	100	100	100
R-Square	0.4711	0.6868	0.3920
Adjusted R-squared	0.4182	0.6171	0.3312
F-Statistic	0.0000	0.0000	0.0000
Durbin-Watson stat	2.1138	2.1450	2.5030

Source (Eviews output)

The R square value shows the level of the difference in the reliant variable that the free factors clarify altogether and furthermore clarify how well they chose subordinate factors and the autonomous variable fit to the model. Based on the results, the R2 value of the models of ROA, ROE and SR are 47.11%, 68.68% and 39.19 % respectively. It explains that 47.11%, 68.68% and 39.19 % of the variance in the dependent variable of ROA, ROE and SR respectively explain by the independent variables of capital adequacy, operating expenses management, credit risk, size and deposit, industry growth, economic growth, inflation rate and market interest rate collectively.

The probability value of F statistic is the benchmark of identifying the significance of overall model. When discuss about the results of regression model, the probability F statistic value of 0.0000 proves that the above all three models are significant at 1 % confidence levels.

4.4 Discussion of results

Table 3 reports the empirical result of the regression analysis using ROA, ROE and SR as performance variables. On bank specific variables, capital adequacy and performance have a positive but insignificant relationship, SR as proxy of performance. This result consistent with the

findings of Demiurgic, -Kunt & Huizinga (1999), Bourke, 1989), Athanasoglou, et al. (2006), Owoputi (2014) and Ameur & Mhiri (2013), who suggest that well capitalized banks have higher margins and profitability. But they have found a significant relationship, which is contradicted with the findings of this study.

Operating costs the executives negatively affects execution taking all things together the ROA, ROE and SR relapses, however just huge at 10% level when SR is utilized as intermediary for execution. This negative relationship recommends that an increment in working costs according to add up to resources would decrease bank benefits. Thus, an effective cost the board is needed for improved execution of banks (Owoputi, 2014).

Bank size, represented by the logarithm of total assets, is positive and significant in relation to performance under ROA. This result confirms the expectation of this study and corroborates those of Owoputi (2014) and Menicucci & Paolucci (2016) that, bigger banks usually benefit from higher product and loan diversification opportunities and economies of scale, resulting in increased profitability. As for deposits volume, finding suggests that a positive and significant effect on performance (ROA) at 1% level. This

finding proposes that Sri Lankan business banks increment their benefits by changing over the expanding measure of store liabilities into saving credit offices and other beneficial speculation openings. This finding also proved by Owoputi (2014) and Menicucci & Paolucci (2016).

Then, the business explicit factors addressed by industry development (IG). On the effect of banking industry development, experimental outcomes show that it influences bank execution is contrarily and essentially influenced by banking development. This outcome steady with the discoveries of Demirgiic,-Kunt & Huizinga (1999), Ameur & Mhiri (2013) who support a negative relationship between banking activity and performance.

Turning to the macroeconomic variables, the coefficient of the economic growth rate (EG) is positive and significant ROA and ROE as a proxy for the performance of banks. This result consistent with Demirgiic,-Kunt & Huizinga (1999), Athanasoglou, et al. (2005) and Pasiouras & Kosmidou (2007). But SR as a proxy for the performance of banks, found a negative and highly significant impact on bank's performance consisting with the findings of Staikouras & Wood (2003). Inflation is negatively and significantly related to bank performance (SR). Abreu and Mendes (2000), Ayadi and Boujelbene (2012) and Demirgiic,-Kunt & Huizinga (1999) also suggested that banks with a high capital ratio in developing countries tend to be less profitable in inflationary environments. At last, as anticipated, market loan cost (MIR) fundamentally affects bank benefit. This proposes that an unexpected expansion in loan cost debilitate bank clients from getting, builds borrowers' premium installments, and consequently diminishes their reimbursement capacity. This finding is predictable with those of Gordon (1981), Wadhwani (1986), Owoputi (2014) and Zeitun, Tian and Keen (2007) that interest rate has a negative impact on firm performance.

V. CONCLUSIONS & RECOMMENDATIONS

This study investigated the influence of the determinants of performance of listed commercial banks in the Colombo Securities Exchange and the outcome of the designed model using E views software, describes the significant impact of each of the independent variables in concerned with the dependent variable and how the model can be used to understand the nature of significant determinants of performance of listed commercial banks in Sri Lanka. In conclusion among bank-specific variables, operating expenses management, size and deposits have a statistically significant impact on bank's performance while industry-specific variable of bank industry growth also significantly impact on performance. Further, macroeconomic variables of economic growth, inflation and market interest rate are significantly impact on performance ROA, ROE and SR as a proxy for the performance of banks. Therefore, the entire alternative hypothesis accepted, and the overall models are significant at 1 % and 5 % confidence levels.

At long last, this investigation breaks down if the result is viable with set speculations. In view of the discoveries and restrictions of the examination, the investigation dependent on optional information and utilized quantitative methodology alone were the primary limits of the investigation. Further, parts of twelve unfamiliar banks have been barred from the examination. Local commercial banks have also been excluded due to non-availability of data during the whole period under consideration. Only considered about the listed commercial banks. Accordingly, future specialists should add more independent variables, at that point the examination would most likely have the option to build the force of the relapse models and subsequently a superior clarification to the determinants of the banks' performance. Likewise, it very well may be productive to incorporate explicit attributes about the administration and board individuals. For instance, schooling, expertise level, insight, freedom, and corporate administration, which are all inexorably significant components to comprehend bank performance.

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