Impact of Bank Size on Bank Profitability: Using Four Licensed Commercial Banks in Sri Lanka

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The financial sector of a country plays an important role in economic development. However, only a profitable bank is better able to contribute to the stability of the financial system. Many factors affect bank profitability. One important variable in determining bank profitability is bank size. Previous studies examining this relationship have yielded mixed results. Given this background, the present study investigates the impact of bank size on bank profitability in Sri Lanka, using four licensed commercial banks over the period from 1998 to 2017. This study is conducted separately for four banks and panel sample using alternative measures for bank size and bank profitability and alternative model specifications. Return on assets and return on equity are used as proxies for bank profitability, while total assets, number of employees, number of branches are used as proxies for bank size. Leverage, liquidity and capital adequacy are used as control variables. Using a balanced panel data, employing Random Effect, Fixed Effect, GLS and GMM method, the impact of bank size on bank profitability is tested and OLS regression analysis is used to estimate the impact on four banks separately. The results reveal that the total assets and number of branches as proxies for bank size have a significantly positive impact on bank profitability as measured by return on assets. The overall model shows a significant impact on bank profitability on return on assets. When analyzed separately, only BOC and HNB show a positive significant relationship between bank size and bank profitability.

Key words: Bank size; bank profitability; licensed commercial banks