

FACTORS INFLUENCING PROFITABILITY OF A BANK: A STUDY ON BANK OF CEYLON'S BRANCH-NETWORK IN THE NORTH WESTERN PROVINCE

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The objective of this study is to examine the influence of the context on the profitability of a bank with a large branch-network and to make recommendations on assessing performance by ignoring the context and the unit cost of financial intermediation. Generally, profitability of a bank is determined by many factors including annual growth of assets, region where bank is located, and, perhaps, the unit cost of financial intermediation (UCFI). Even though UCFI is taken into consideration, the context where the branch is located has been ignored. As a result, branches located in rural settings are not been able to convince their efficiency. Generally, the financial success of a bank with a large branch network, depends on the contributions from each element in the branch-network. The contexts, where these branches are located, vary and policy makers may also face difficulty in determining financial intermediation efficiency (FIE) of a branch. This study proposes a composite indicator where FIE could be measured. We deployed a case study research method to assess the context by taking into consideration socio-economic condition of the location of the branch. Data published by the Census and Statistics Department (CSD) have been used to determine the index for the context which also supplemented by the findings of the field research. UCFI will be measured by the methodology adopted by Phillipon (2013). The context measure will be weighted inversely by placing branches in rural setting at a higher order and UCFI will be measured on the ratio between aggregate assets and income. Bank's unpublished secondary data were used to estimate UCFI. Findings of this study shows that branches located in rural settings are more efficient in financial intermediation than the ones located in urban settings.

Keywords: Bank of Ceylon, North Central Province, Profitability of Banks