

Does Ownership Affect Financial Performance of Sri Lankan Commercial Banks: A CAMEL Based Approach

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Abstract

After a series of financial and economic reforms, the ownership structure in the Sri Lankan banking system has been reshaped. More precisely, the market share of the state-owned banks has been decreased while the shares of domestic private banks and foreign banks have been increased. Concurrently, the Sri Lankan banking system has attained a substantial development in terms of technological edge, geographical spread and financial stability. However, due to inconsistency of the findings in the literature and lack of substantial number of recent studies conducted in the Sri Lankan context, the effect of the changes in ownership structure on the performance of banks in Sri Lanka remains unclear. Therefore, this study investigated the impact of ownership on the performance of banks drawing upon the experiences of ten selected commercial banks during the period 2005-2011. Performance was measured using a CAMEL based approach using profitability, asset quality, liquidity and capital adequacy as key performance indicators. This remains as a salient feature of this study since most of the other studies have measured performance using only one or two aspects of performance. Further, the use of most recent quarterly data distinguishes this study from the few available studies in the context of Sri Lanka. OLS regression models were used mainly to analyze the effect of ownership on performance. The findings suggest that the performance of foreign banks are well above other two groups in terms of all performance aspects while the performance of domestic private banks is relatively better than that of state-owned banks. However, due to limited presence of foreign banks, their contribution to economic development of Sri Lanka seems to be trivial.

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