Determinant Of Commercial Bank Profitability

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Determinants and Consequences of Non-Interest Income Diversification of Commercial Banks in OECD Countries Joon-Ho Hahm 2017 This paper studies determinants and consequences of the changing income structure of commercial banks in the era of financial conglomeration. Utilizing a dataset of 662 relatively large commercial banks in 29 OECD countries from 1992 to 2006, we find that banks with relatively large asset sizes, low net interest margins, high impaired loan ratios, and high cost-income ratios tend to exhibit higher non-interest income shares. As for macroeconomic factors, banks in countries with slow economic growth, a stable inflation environment, and well- developed stock markets tend to show higher non-interest income shares. Second, we investigate the consequences of non-interest income expansion on bank profitability and risks. While the positive effects on profit and capital adequacy seem to become weaker under the consideration of macroeconomic factors and endogeneity problems, the adverse impact on profit variability remains robust. Overall, these findings suggest that expanding toward non-interest income may not produce desired income diversification effects, and it does not necessarily imply a shift toward superior return-risk frontiers.

Bank Specific and Macroeconomic Determinants of Bank Profitability Prof. Dr. Radhe Shyam Pradhan 2016 The profitability of commercial banks is becoming a major concern these days and is gaining increasing importance because, in its absence, banks may collapse. The banking sector these days has gone less secure, and hence, the studies devoted to profitability of commercial banks assumes a greater significance. The objective of this study is to determine the factors affecting profitability of Nepalese commercial banks. It considers both bank specific and macro-economic factors. The study is based on pooled cross-sectional analysis of secondary data of 22 banks with 154 observations for the period 2005/06 to 2011/12. As a first approximation to the theory, this study hypothesizes that the profitability of the banks depends on several firm specific and macro-economic variables such as, credit deposit ratio, market share, GDP, inflation, liquidity and non-performing loans. The study revealed that average return on equity was 16.18 percent while the average return on assets was 14.42 percent. The average ratio of non-performing loan to total loans was observed to be 4.23 percent. The beta coefficients for inflation, liquidity, and non-performing loans were negative, while they were positive for credit to deposit ratio, market share and GDP. However, the coefficients were significant for credit deposit ratio and liquidity only at 5 percent level of significance. Thus, this study concludes that credit to total deposit ratio and liquidity are the major determinants of profitability of Nepalese commercial banks.

Possible Determinants of Bank Profitability in the United Kingdom Muhammad Sajid Saeed 2014-03 This paper investigates the impact of bank-specific, industry-specific, and macroeconomic variables on bank profitability before, during, and after the financial crisis of 2008. For this purpose, 73 UK commercial banks are selected on the basis of availability of required information. The empirical data for these banks are collected for the period from 2006 to 2012 from Bankscope and Data-stream databases. The regression and correlation analyses are performed on the data and concluded that bank size, capital ratio, loan, deposits, liquidity, and interest rate have positive impact on ROA and ROE while GDP and inflation rate have negative impact. The findings of this study can help UK banks, government, investors, policymakers, and shareholders for decision making and improving the performance of financial institutions in the future.

The Determinants of Ethiopian Commercial Banks Performance Tesfaye Boru Lelissa 2014-08-15 This paper investigates the determinants of Ethiopian banks performance considering bank specific and external variables on selected banks' profitability for the 1990-2012 periods. The empirical investigation uses the accounting measure Return on Assets (ROA) to represent Banks' performance. The study finds that bank specific variables by large explain the variation in profitability. High performance is related to the ability of banks to control their credit risk, diversify their income sources by incorporating non-traditional banking services and control their overhead expenses. In addition, the paper finds that bank's capital and liquidity status are not significant to affect the performance of banks. On the other hand, the paper finds that bank size and macro-economic variables such real GDP growth rates have no significant impact on banks' profitability. However, the inflation rate is determined to be significant driver to the performance of the Ethiopian commercial banks

Germany International Monetary Fund. Monetary and Capital Markets Department 2022-08-16 German bank profitability is low by international standards. Although German banks rank more favorably in risk-adjusted terms, as low profitability is partially compensated by lower volatility of returns, their profitability ratios remain low. On other measures (such as returns on assets, equity, and risk-weighted assets), German banks, on aggregate, rank among the least profitable in Europe. Several factors affect bank profitability, including a complex tiered industry structure with barriers to entry and an explicit mandate of a large part of the banking system – cooperative and savings banks – to maximize welfare of stakeholders rather than profits.

The Bank Credit Analysis Handbook Jonathan Golin 2013-03-18 A hands-on guide to the theory and practice of bank credit analysis and ratings In this revised edition, Jonathan Golin and Philippe Delhaise expand on the role of bank credit analysts and the methodology of their practice. Offering investors and practitioners an insider's perspective on how rating agencies assign all-important credit ratings to banks, the book is updated to reflect today's environment of increased oversight and demands for greater transparency. It includes international case studies of bank credit analysis, suggestions and insights for understanding and complying with the Basel Accords, techniques for reviewing asset quality on both quantitative and qualitative bases, explores the restructuring of distressed banks, and much more. Features charts, graphs, and spreadsheet illustrations to further explain topics discussed in the text Includes international case studies from North America, Asia, and Europe that offer readers a global perspective Offers coverage of the Basel Accords on Capital Adequacy and Liquidity and shares the authors' view that a bank could be compliant under those and other regulations without being creditworthy A uniquely practical guide to bank credit analysis as it is currently practiced around the world, The Bank Credit Analysis Handbook, Second Edition is a must-have resource for equity analysts, credit analysts, and bankers, as well as wealth managers and investors.

An Investigation Into the Extent and Determinants of Bank Profitability Ahmad M.A.M. Sharif 2000

The Determinants of Commercial Banks Profitability in India Nagaraju Thota 2015 Using an unbalanced bank level panel data, this study tries to examine how bank-specific characteristics and macroeconomic factors affect the profitability of commercial banks (108 commercial banks) in India in the post reform period from 1999 to 2011. The results indicate that profitability of commercial banks in India, regardless of their ownership, is affected by both internal and external characteristics and changes in the overall banking environment. However, the study finds that the impact is not uniform across bank types. The results indicate that banks' liquidity conditions and size do not impact neither return on equity (ROE) or return on asset (ROA) of the profitability measure. On the other hand, it is found that profitability of private and foreign banks is positively related to their credit risk. The results indicate that overhead cost affects ROE of private and foreign banks positively while public sector banks negatively. Whereas the impact of overheads cost on ROA is positively significant in the case of all banks and negatively significant in the case of private banks. There exists a negative relationship between the level of capital strength and ROE and a positive relationship between the level capital strength and ROA in the case of all banks and public banks, which indicates that the more is the capital strength, the more is the profitability of these banks. The impact of Macroeconomic factors on ROE is insignificant for all cases with conflicting signs across ownership types of the banks. On the other hand on ROA, these indicators are significant when we pool the whole sample together (i.e. all banks) and private banks as a group.

The Changing Financial Landscape Goran Karanovic 2021-12-19 This book offers new insights and perspectives on the financial and banking sector in Europe with a special focus on Central and Southeastern European countries. Through quantitative and qualitative analysis of primary sources and datasets, the book examines both the financial development and performance of the real sector of the economy and the impact and involvement of the banking sector. The contributions offer new insights into current financial innovations and discuss best practices in innovative financial solutions. They also highlight new perspectives in finance and analyze characteristic problems in the real and banking sectors in various European countries. The insights and financial solutions presented in this book will be of interest to scholars of finance and financial economics as well as practitioners in the financial industry and policy makers.

Determinants of profitability in commercial banks in Albania Arjeta Hallunovi 2018-06-21 Scientific Study from the year 2018 in the subject Economics - Finance, grade: 12, , language: English, abstract: This study examines the determinants of profitability of commercial banks in Albania. These determinants are categorized into two groups, internal factors that are the bank specific factors and external factors that are further divided into macroeconomic factors and industry specific factors. The main objective of the study is to determine the factors affecting the profitability of commercial banks and making some recommendations, that maybe can help the management and policymakers. A panel data with 16 commercial banks in Albania is analyzed for the period 2009-2014. Two indicators are used (dependent variables) for the measurement of profitability, return on assets (ROA) and return on equity (ROE). Banking specific factors that are used in this study include variables such as bank size, asset management, credit risk, liquidity of assets, capital adequacy, operational efficiency and cost of financing. On the other hand is taken into consideration only one industry specific factor, which is the concentration and macroeconomic factors such as GDP, inflation and exchange rate. To meet the main object of the research, the study is based mainly on quantitative research method, which is supplemented by a qualitative method. Quantitative data were obtained mainly from the financial statements of commercial banks, by INSTAT, Bank of Albania, and World Bank, in order to make empirical analysis needed to identify and measure the determinants of bank profitability. In particular, multiple regression analysis was used to measure the impact of the determinants of bank profitability. On the other hand, qualitative data were collected through unstructured interviews conducted with executives of finance in the albanian commercial banks. To realize empirical analysis were used the software SPSS 22 and Eviews 7.

Financial Structure and Bank Profitability Asl? Demirgüç-Kunt 2000

Effect of liquidity on commercial bank profitability in the Philippines Ma. Melannie L. Aballe 2014 The global financial crisis that happened in 2008-2009 highlighted the importance of liquidity to financial intermediaries. This has led to revisions of banking regulations to include requirements on liquidity management. With this regard, bank profitability has been widely discussed in the literature of banking. This study aims to examine the effect of liquidity on bank profitability of commercial banks in the Philippines with other factors categorized herein as internal and external determinants. The Stochastic Frontier Analysis with the logged technical efficiency component is employed. Results shows that there is a weak negative relationship of liquidity and profitability of commercial banks for the period under study. It indicates that on the average, these banks produce 51.65% of the output that could be theoretically produced with the same bundle of inputs by a technically efficient bank. Therefore, they need to increase their output by 48.35% to be efficient.

Determinants of Commercial Bank Interest Margins and Profitability Asli Demirgüç-Kunt 2016 Differences in interest m ...

Cross-Country Empirical Studies of Systemic Bank Distress: A Survey 2005-05-01 A rapidly growing empirical literature is studying the causes and consequences of bank fragility in present-day economies. The paper reviews the two basic methodologies adopted in cross-country empirical studies-the signals approach and the multivariate probability model-and their application to studying the determinants of banking crises. The use of these models to provide early warnings for crises is also reviewed, as are studies of the economic effects of banking crises and of the policies to forestall them. The paper concludes by identifying directions for future research.

Bank Profitability and Financial Stability Ms.TengTeng Xu 2019-01-11 We analyze how bank profitability impacts financial stability from both theoretical and empirical perspectives. We first develop a theoretical model of the relationship between bank profitability and financial stability by exploring the role of non-interest income and retail-oriented business models. We then conduct panel regression analysis to examine the empirical determinants of bank risks and profitability, and how the level and the source of bank profitability affect risks for 431 publicly traded banks (U.S., advanced Europe, and GSIBs) from 2004 to 2017. Results reveal that profitability is negatively associated with both a bank’s contribution to systemic risk and its idiosyncratic risk, and an over-reliance on non-interest income, wholesale funding and leverage is associated with higher risks. Low competition is associated with low idiosyncratic risk but a high contribution to systemic risk. Lastly, the problem loans ratio and the cost-to-income ratio are found to be key factors that influence bank profitability. The paper’s findings suggest that policy makers should strive to better understand the source of bank profitability, especially where there is an over-reliance on market-based non-interest income, leverage, and wholesale funding.

Bank Liberalization and Profitability Panayotis Alexakis 2000 This paper investigates the evolution of the determinants of bank profitability for a small bank market, as it is the case of the Greek market. The period examined, 1980-1991, is divided into three subperiods, one in which banks functioned under a highly restricted environment, a second one, where certain changes occurred towards deregulation and a recent one, since 1987, when significant changes have been introduced liberalizing the market. The results suggest that the determinants of profitability of Greek commercial banks were highly different from those depicted in other countries during the periods of intense regulation in Greece. However, liberalisation of the Greek financial system, has brought these determinants more in line with international experience, and thus has normalised the behaviour of Greek commercial banks.

Determinants of Commercial Banks' Profitability in Botswana Narain Sinha 2018 The main objectives of the study are to determine the factors that influence commercial banks' profitability in Botswana and make recommendations for management decision making and policy objectives. These determinants have been categorized into internal and external factors. The internal factors refer to bank-specific factors that can be controlled by the banks' management. External factors considered are the macroeconomic factors such as GDP, inflation and money supply. A panel data consisting of the three large-sized commercial banks was used to represent the commercial banks in Botswana. The data was analyzed over the period of 2004-2013, using ordinary least square technique to estimate fixed effects regression model. Return on Assets (ROA) was used as the dependent variable or measure of profitability. The bank-specific factors considered are: Capital Adequacy (CAD), Operating Efficiency (OEF), Liquidity (LQD), Asset Quality (AQT) and Bank Size (NLA). The empirical results indicated that CAD, OEF, AQT and NLA are positively related to bank profitability. However, the relationship between ROA, OEF and AQT was found to be insignificant. Moreover, LQD, GDP and money supply were found to have a significant and negative relationship with bank profitability. Inflation was reported to have a positive but insignificant relationship with bank profitability.

Determinants of Commercial Bank and Finance Company Profitability in Malaysia Balachandher Krishnan Guru 1998

The Determinants of Commercial Bank Profitability in Sub-Saharan Africa Valentina Flamini 2009-01-01 Bank profits are high in Sub-Saharan Africa (SSA) compared to other regions. This paper uses a sample of 389 banks in 41 SSA countries to study the determinants of bank profitability. We find that apart from credit risk, higher returns on assets are associated with larger bank size, activity diversification, and private ownership. Bank returns are affected by macroeconomic variables, suggesting that macroeconomic policies that promote low inflation and stable output growth does boost credit expansion. The results also indicate moderate persistence in profitability. Causation in the Granger sense from returns on assets to capital occurs with a considerable lag, implying that high returns are not immediately retained in the form of equity increases. Thus, the paper gives some support to a policy of imposing higher capital requirements in the region in order to strengthen financial stability.

The Determinants of Commercial Bank Interest Margin and Profitability Sami Ben Naceur 2010 This paper investigates the impact of banks' characteristics, financial structure and macroeconomic indicators on banks' net interest margins and profitability in the Tunisian banking industry for the 1980-2000 period. First, individual bank characteristics explain a substantial part of the within-country variation in bank interest margins and net profitability. High net interest margin and profitability tend to be associated with banks that hold a relatively high amount of capital, and with large overheads. Second, the paper finds that the inflation has a positive impact on banks' net interest margin while economic growth has no incidence Third, turning to financial structure and its impact on banks' interest margin and profitability, we find that concentration is less beneficial to the Tunisian commercial banks than competition. Stock market development has a positive effect on bank profitability. This reflects the complementarities between bank and stock market growth. We have found that the disintermediation of the Tunisian financial system is favourable to the banking sector profitability.

The Banking Sector in Pakistan. Internal Determinants of Commercial Banks' Profitability Saira Anis 2017-09-26 Academic Paper from the year 2014 in the subject Economics - Finance, grade: 2.92, , language: English, abstract: This study focuses on internal factors and how they are affecting the profitability of banks in Pakistan. The report seeks answer to the following research problems: Which internal determinants are affecting the commercial banks’ profitability in Pakistan? And: How are these internal determinants affecting the commercial banks' profitability in Pakistan? To analyze the internal determinants affecting the profitability of 14 commercial banks of Pakistan, the study is based on available data over the period of 2007 to 2012 and aims to recognize major determinants of profitability.

IMF Working Papers Valentina Flamini 2009

Determinants of Profitability of Listed Commercial Banks in India Rajveer Rawlin 2019-12-09 Doctoral Thesis / Dissertation from the year 2019 in the subject Business economics - Banking, Stock Exchanges, Insurance, Accounting, grade: 1, Bharathiar University, language: English, abstract: This study seeks to understand the impact of a series of key internal determinants of the profitability of listed commercial banks in India. Following are the research questions raised in this regard: Are there differences in key performance measures of private and public sector banks? Does the size of the bank affect bank profitability? Does the bank’s lending activity and income generation capability affect its profitability? Does the productivity of the bank impact its profitability? Does the bank’s asset quality and capital adequacy affect its profitability? Can bank profitability be forecasted from determinants? The banking industry in India is diverse in nature. There are more than sixty listed commercial banks in India. These include banks in the public and private sector and the banks are of varying size and profitability levels. As noted early, the Indian banking system is faced with severe asset quality issues. The banking system has been flooded with non-performing assets which have significantly eroded the bank margins. Recent adverse developments in the banking sector such as lending scams and questionable advances to troubled segments of the economy have dominated the financial press. While this being so, this research is aimed at examining the contributing factors of profitability in banks. Key measures of bank profitability include the return of assets, return on equity and net interest margin. There are several possible drivers of bank profitability. These include asset quality, capital adequacy, liquidity, productivity and income. While several studies till date have looked at key determinants of bank profitability, very few studies have compared the effect of key determinants for a larger cross section of banks that represent the banking sector in India as a whole. Hence an attempt has been made in this study to know the key drivers of profitability of the banking sector. The study also looks at the similarities or the differences of the influence of selected determinants on profitability measures across the sample of banks selected for research. This study also compares the key drivers of bank profitability for public and private sector banks and an attempt is made to develop models to forecast bank profitability from key determinants.

Breaking the Bank? A Probabilistic Assessment of Euro Area Bank Profitability Selim Elekdag 2019-11-22 This paper explores the determinants of profitability across large euro area banks using a novel approach based on conditional profitability distributions. Real GDP growth and the NPL ratio are shown to be the most reliable determinants of bank profitability. However, the estimated conditional distributions reveal that, while higher growth would raise profits on average, a large swath of banks would most likely continue to struggle even amid a strong economic recovery. Therefore, for some banks, a determined reduction in NPLs combined with cost efficiency improvements and customized changes to their business models appears to be the most promising strategy for durably raising profitability.

Determinants of Commercial Bank Profitability in Malaysia Balachandher K. Guru 2000

Profitability of Commercial Banks Revisited Nermeen Abdullah 2017 This paper investigates whether the determinants of commercial bank profitability differ in oil and non-oil countries of the Middle East and North Africa (MENA) region through which a comparative analysis between total banks' sample and regular reporting banks' sample is provided using data from 11 countries over the period 2004-2014. The results indicate that adding irregular reporting banks to the total sample creates bias in some estimated coefficients such as credit risk, particularly in non-oil countries. No enough evidence to support the impact of financial inclusion and financial openness on profitability. In addition, the global financial crisis has significantly affected profitability in oil countries. Several policy implications are provided to the bank management to follow based on each country group.

The Determinants of Commercial Bank Profitability in Vietnam Tu Le 2019 This study investigates the determinants of profitability for Vietnamese banks between 2005 and 2015 using system generalized method of moments. The findings show the persistence of profits over time. More x-efficient banks appear to be more profitable, supporting the efficient-structure hypothesis. The same is true for banks with greater lending specialization; for those with lower liquidity risk; for more-diversified banks; for listed banks and smaller banks. Interestingly, the findings demonstrate that a less concentrated banking system improves bank profitability and profits tend to persist over time, suggesting the influence of government intervention in explaining bank performance in Vietnam.

Determinants of Commercial Banks' Profitability in Ethiopia Firew Bekele 2013 This book elaborates the Determinants of Commercial Banks' profitability in Ethiopia taking five bank specific variables namely: capital adequacy, bank size, asset composition, loan loss provision and liquidity and ROA and ROE were used to measure profitability.Ten years data(2003-2012) gathered from seven commercial banks(CBE, Awash, Dashen, Nib, Wugagen, Abyssinia, United banks) were analyzed using descriptive, correlation and regression a

Banking in Europe Mariarosa Borroni 2019-04-09 This Palgrave Pivot provides a comprehensive overview of the dynamics that are affecting the profitability of European banks since the recent crisis period. More specifically, it sheds light on the most crucial changes in profit generation and on the consequential changes in banking strategies due to fiercer competition, reduced margin and changing regulation. The work is divided in four main parts. The first section introduces the changes in bank management policies, considering the periods before and since the crisis. In the second section, the authors review the literature on bank profitability and outline the main determinants of profit generation, and in the third section they provide a cross-country analysis of profitability for a wide sample of European banks during the great financial crisis. In the last section, the authors discuss the results of the quantitative analysis under the new regulatory and competitive framework that is progressively affecting the banking sector (fintech, Basel regulations, etc.). This book will be of interest to academics, researchers and students of European banking.

Determinants of Bank Profitability Before and During the Crisis Andreas Dietrich 2010 This paper analyzes the profitability of 453 commercial banks in Switzerland over the period from 1999 to 2008. In order to take into account the impacts of the recent financial crisis, we additionally consider the pre-crisis period and the crisis years 2007-2008 separately. Our profitability determinants include bank-specific characteristics as well as industry-specific and macroeconomic factors, some of which have not been considered in previous studies. The inclusion of these additional factors as well as the separate consideration of the crisis years allow us to gain new insights into what determines the profitability of commercial banks.

Determinants of Commercial Bank Profitability in Mexico Rubén Chavarín 2015 The aim of the present work is to identify the main determinants of profitability for commercial banks established in Mexico. A data base of 45 banks representing virtually the whole world of commercial banking in the period 2007-2013 was used. Dynamic models using Arellano-Bover/Blundell-Bond estimators with an error that follows an MA(1) process were employed along with static models having random effects and Hausman-Taylor estimator. Findings suggest that the profitability of commercial banking is sustained by the level of capital, the charging of commissions and fees, and control of operating expenses, as well as certain market entry barriers and obstacles to competition that provoke a relatively high persistence of profitability.

The Determinants of Private Commercial Banks Profitability. In the Case of Selected Ethiopian Private Banks Moges Endalamaw Yigermal 2018-03-12 Scientific Essay from the year 2017 in the subject Business economics - Banking, Stock Exchanges, Insurance, Accounting, language: English, abstract: The main objective of the paper is to analyze the impact of bank specific and macro-economic factors on the profitability of selected Ethiopian private commercial banks over the period of 2005 to 2014. To meet the objective, both descriptive and random effect panel econometrics method of data analysis has been employed. The study uses both return on asset (ROA) and return on equity (ROE) as a measurement for banks profitability. Private Banks profit after tax gets increasing year after year and their ROA is found to be three percent on average. The deposit share of private commercial banks reached above 30 percent in 2014, while it was only 10 percent in 2000. The panel econometrics result shows that, the variable bank size and GDP growth rate has a positive and significant impact on private commercial banks ROA and ROE. While, interest rate spread has a negative and significant impact. The variable Loan to deposit ratio has negative and significant impact on banks ROA while, it has no effect on their ROE. Inflation also an important variable in explaining ROA at 10% significant level but, it has no effect on ROE. The other important variable in explaining ROE is loan concentration index it has positive and significant impact on banks ROE. But, it does not significantly explain ROA. As a recommendation the significant and positive impact of Bank size can be taken as a good signal for commercial banks to merge and to have scale advantage. The significant impact of macro-economic variables in explaining banks profit is an indicator to designed policies that promote sustainable output growth and controlling inflation to have stable banking sector.

An Analysis of Macroeconomic Determinants of Commercial Banks Profitability in Malaysia for the Period 1995-2011 Mirza Vejzagic 2018 This paper investigates the macroeconomics factors that stimulate banks' profitability. A standard regression model is used to identify macroeconomics determinants that significantly contribute to profitability, expressed through return on assets (ROA), of commercial banks in Malaysia. The determinant factors under consideration are real gross domestic product growth, inflation (expressed through consumer price index), and real interest rates. The paper incorporates seven banks, namely, CIMB, Public Bank, Maybank, Affin Bank, RHB Bank, Alliance Bank and Hong Leong Bank for the period 1995 to 2011. In order to present research in most accurate way, the paper looked into the relationship between profitability of all banks (expressed through mean of ROAs), as well as every single individual bank, with mentioned macroeconomic determinants. Model demonstrated overall significance for mean of all banks, and three individual banks, namely, Maybank, Public Bank and Hong Leong Bank. Findings show that for mean of all banks, as well as Maybank, Public Bank and Hong Leong Bank, real GDP is significant and have positive relationship with confidence level of 1% and 5%. This paper illustrated that in Malaysian case, inflation (CPI) is not significant for mean of all banks and Maybank. On the contrary, for Public Bank and Hong Leong Bank inflation (CPI) is significant, with negative relationship. Lastly, the outcomes of this paper exemplified that in Malaysia real interest rate has no relation with banks' profitability. From the empirical estimation, it is suggested that for the banks' profitability the growth of gross domestic product must be in place in order to stimulate lending and borrowing activities. In addition, it is proposed that for the banking sector in order to preserve on profitability, the anticipation of inflation must be in place to shelter revenue and reduce cost of the banks.

Determinants of U.S. Commercial Bank Performance P.A.V.B. Swamy 1999 The purpose of this paper is to identify important determinants of the performance of commercial banks. Two profitability measures and one measure of loss are used as indicators of performance. Each of these measures is related to different types of bank assets and other variables. The choice of these measures and variables is justified by citing several previous studies in the area. Various arguments are also presented to show that these relationships are not linear, have unknown functional forms, and are not stable. To avoid the risk of misspecifying the functional form of the relationships, a wide class of functional forms is employed that may embody the true functional form as a special case even when the specific functional forms considered in previous studies are false. The empirical results obtained from the class approach are compared with those obtained by assuming linear and specific nonlinear relations to study the robustness of the results to departures from specific functional forms. The effects of excluded variables and of errors in measurement are also accounted for in the class approach.

Determinants of Tunisian Bank Profitability Raoudha Béjaoui 2014 The aim of this study is to examine the persistence of profit and the effect of bank-specific determinants of Tunisian bank profitability. To account for profit persistence, we apply a dynamic panel model, using Generalized Methods of Moments (GMM) system for 16 Tunisian commercial banks, divided into 11 deposit banks and 5 development banks during the period 1999-2010. The estimates show that the evidence for profit persistence is positive and significant for both deposit and development banks during the period 2005-2010. However, we find that deposit banks are more competitive than development banks. Therefore, abnormal profit persists for Tunisian banks, but development banks enjoy more regulatory protection than deposit banks. We find a positive relationship between capital and profitability. This implies that the capital market is not perfect in the Tunisian banking sector. The liquidity risk management by Tunisian banks shows that the overuse of deposits to finance loans is likely to weigh on the profitability of the banks. Finally, we show that credit risk management is negatively related to bank profitability and that deposit and development banks suffer from the bad quality of their loans and the lack of provisions over the period 1999-2010.

The Determinants of Commercial Banking Profitability in Low-, Middle-, and High-Income Countries Andreas Dietrich 2014 Using a broad bank-level dataset and the GMM estimator technique described by Arellano and Bover (1995), this paper analyzes how bank-specific characteristics, macroeconomic variables, and industry-specific factors affect the profitability of 10,165 commercial banks across 118 countries over the period from 1998 to 2012. Grouping the countries according to three income levels, we show that the determinants of bank profitability included in our model can explain existing profitability differences among commercial banks in low-, middle-, and high-income countries. The profitability determinants vary quite widely across the different levels of income in terms of significance, sign and size of the effect. The level of income has thus an important impact on the determinants of bank profitability.

Determinants of Profitability, Risk, and Efficiency for Korean and Chinese Banks Hae Young Byun 2017 This paper investigates the determinants of profitability, risk, and efficiency for Korean and Chinese commercial banks. To conduct the empirical analysis, this study selects five nation-wide banks and six local banks in Korea, and five state-owned banks and eight joint-equity banks in China. The main regression results are as follows: First, this study finds that the important internal determinants for Korean and Chinese commercial banks are operational efficiency, management efficiency measured by overhead expenses, and operating income. GDP is the most significant external determinant. Second, the profitability of Korean banks is increased because of capital strength and operating income. For Chinese banks, operational efficiency and operating income are important determinants of profitability. Third, the risk of Korean banks is increased by bank diversification; but, for Chinese banks, the loan-deposit ratio increases banks' risk. Fourth, for Korean banks, bank size has a positive influence on efficiency, while for Chinese banks liquidity and capital strength have a positive impact on efficiency. In conclusion, both Korean and Chinese banks have common and different determinants of profitability, risk and efficiency depending on their specific situation. This study is preliminary tests for Korean banks on how to team up with Chinese banks to expand markets and earn profits. Furthermore, forward-looking efforts should be made to strengthen Korean banks' influence in global market based on this results.

Determinants of Commercial Bank Interest Margins and Profitability Asl? Demirgüç-Kunt 1998 March 1998 Differences in interest margins reflect differences in bank characteristics, macroeconomic conditions, existing financial structure and taxation, regulation, and other institutional factors. Using bank data for 80 countries for 1988-95, Demirgüç-Kunt and Huizinga show that differences in interest margins and bank profitability reflect various determinants: * Bank characteristics. * Macroeconomic conditions. * Explicit and implicit bank taxes. * Regulation of deposit insurance. * General financial structure. * Several underlying legal and institutional indicators. Controlling for differences in bank activity, leverage, and the macroeconomic environment, they find (among other things) that: * Banks in countries with a more competitive banking sector-where banking assets constitute a larger share of GDP-have smaller margins and are less profitable. The bank concentration ratio also affects bank profitability; larger banks tend to have higher margins. * Well-capitalized banks have higher net interest margins and are more profitable. This is consistent with the fact that banks with higher capital ratios have a lower cost of funding because of lower prospective bankruptcy costs. * Differences in a bank's activity mix affect spread and profitability. Banks with relatively high noninterest-earning assets are less profitable. Also, banks that rely largely on deposits for their funding are less profitable, as deposits require more branching and other expenses. Similarly, variations in overhead and other operating costs are reflected in variations in bank interest margins, as banks pass their operating costs (including the corporate tax burden) on to their depositors and lenders. * In developing countries foreign banks have greater margins and profits than domestic banks. In industrial countries, the opposite is true. * Macroeconomic factors also explain variation in interest margins. Inflation is associated with higher realized interest margins and greater profitability. Inflation brings higher costs-more transactions and generally more extensive branch networks-and also more income from bank float. Bank income increases more with inflation than bank costs do. * There is evidence that the corporate tax burden is fully passed on to bank customers in poor and rich countries alike. * Legal and institutional differences matter. Indicators of better contract enforcement, efficiency in the legal system, and lack of corruption are associated with lower realized interest margins and lower profitability. This paper-a product of the Development Research Group-is part of a larger effort in the group to study bank efficiency.

The Determinants of Commercial Bank Profitability in Indonesia Arief Putranto 2014 This paper seeks to examine the determinants of bank profitability in Indonesia. The sample used is a panel data of 25 publicly traded Indonesian commercial banks in 2007-2012 period. This research used Return on Assets (ROA) and Return on Equity (ROE) as proxies of profitability and analyze how variables from three categories that is internal, external, and market share variable affects them. We found some intriguing findings from this study, namely, the effect of CAR that we found to be negative towards profitability, which indicated that the capitals of Indonesian banks are beyond their optimal level. Then we found that Loan to Deposit ratio and Market Share of Credit, contrary to common sense, also demonstrated a negative effect, which appears to be caused by the 2008-2010 Global Financial Crisis. Last, we also found that Inflation positively affect profitability, which seemingly caused by a demand-pull type of inflation.

Determinants of Commercial Banks' Residual Profitability Borja Amor-Tapia 2007 This study contrasts the reliability of Abnormal ROE (residual income scaled by beginning-of-period book value of equity) estimates based on value drivers with a contextual approach in the commercial bank industry of the OECD countries. We identify the key theoretical variables from the banking and accounting literature and analyze the impact on the prediction of future abnormal ROEs. After regressing the following year's abnormal ROE on those variables, we verify that some of them, related to the competitiveness of banks and the accounting system, play a determinant role. Our evidence suggests that the identification of 'other information' factors, by a contextual approach, might improve the empirical use of the Ohlson Model in commercial banks, especially when they act in competitive environments and/or relevant intangibles are not captured by accounting.