

A Comparative Study of Financial Performance of State and Private Sector Commercial Banks in Sri Lanka: An Application of CAMEL Rating System

Anojan,V & Nimalathan,B

**Department of Accounting, Faculty of Management Studies and Commerce,
University of Jaffna, Sri Lanka**

v.anoabt@gmail.com , bnimalathan@yahoo.com

Abstract

The banking sector of developing countries is different from the developed countries. The banking sector of Sri Lanka plays a vital role in the Sri Lankan Economy specially commercial banks are playing a major role in the banking sector of Sri Lanka. There are two types of commercial banks in Sri Lanka such as public and private commercial banks here the private commercial banks can be divided into domestic and foreign private commercial banks. The focus of this study is to compare the financial performance of public and private commercial banks using the Capital Adequacy, Assets Quality, Management Soundness, Earnings, Liquidity (CAMEL) rating system in Sri Lanka 2008-2012. Financial performance of financial institution is generally analyzed by applying quantitative techniques of financial analysis. Sri Lankan commercial banks are performing very well in the Sri Lanka. Many studies are conducted in different countries to compare the financial performance of banking sector with the use of various statistical methods. In this study CAMEL rating system used to compare the financial performance of banks, it is one of the quantitative techniques and it is widely used in the current world. CAMEL rating system confirmed that Commercial Bank of Ceylon PLC was 1 or strong, Bank of Ceylon (BOC) was 2 or satisfactory, Hatton National Bank (HNB) PLC was rated as 3 or fair and People's Bank rated as 4 or marginal. According to the results of CAMEL rating system, as researchers suggest that, HNB PLC and People's Bank should increase their financial performance through successful ideas to compete and run the business successful in Sri Lankan banking sector.

Keywords: CAMEL, Financial Performance, Private Banks, Rating System and State Banks.

1. Introduction

Banks are playing a major role of the financial system of all the counties as well as in Sri Lanka. Sri Lankan banking system can be divided into commercial banks and special purpose banks. All the financial companies and banks are monitoring by Central Bank of Sri Lanka the Sri Lankan commercial banks can be seen into two major categories such as state and private sector commercial banks. Two state commercial banks and 22 private sector commercial banks are functioning in Sri Lanka (public notice of the Central Bank of Sri Lanka, 2012). Varieties of services, attractive deposit accounts are providing by commercial banks which are fixed deposit, saving account, current account, pawning, loan, leasing, etc. Banking sectors of Sri Lanka is contributing a considerable amount to the economic growth of the Sri Lanka. Business firms and individuals are very familiarly using the cheque in their business transaction due to that commercial banks are much needed in the current environment.

According to the study of Ahmad, Raza, Amjad, and Akram, (2011), they stated that banks and financial institutions are special components of a healthy and wealthy financial system of the country. Those could state to the investors for their fair investment through this a country can obtain and maintain an efficient and effective capital and money market in country. According to this study, they have found that exchange commission and state bank of Pakistan is working good for the development of a healthy and wealthy financial system in Pakistan. Athanasoglou, Brissimis and Delis (2008) stated that profitability and soundness of the commercial banking sector is at a better point to add performance in the financial system of the country. Aburime, (2009) pointed that a profitable commercial banking sector has the ability to tolerate the adverse and accumulate the strength and power in the economic system of the country. Many domestic and foreign investors encourage investing their investment in each and every sector as well as in banking sector after the introduction of the open economic system in Sri Lanka which was introduced in 1977. Numbers of private commercial banks have opened after the open economy in Sri Lanka it can be seen through the banks' opening years. This study ultimately aim to compare the financial performance of state and private banks using the well known CAMEL rating system in Sri Lanka which banks were performing during the period 2008-2012. CAMEL