

**RELATIONSHIP BETWEEN SYSTEMATIC RISK AND  
PROFITABILITY OF FINANCIAL INSTITUTIONS IN  
SRI LANKA**

**By**

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## ABSTRACT

The main objective of the study is to identify the relationship between Systematic risk and Profitability. In the present study, Systematic Risk [i.e., Degree of Financial leverage (DFL) and Degree of Operating leverage (DOL)] as independent variable and Profitability [i.e., Net Profit and Return on Equity (ROE)] as the dependent variable are considered. In order to select the sample, Judgmental sampling techniques method is used. The sample of this study composed of thirty financial institutions listed in the Colombo Stock Exchange and period of 5 years from 2008 to 2012. Banks Finance & Insurance sector was selected for the present study. The study suitably used secondary data. Correlation analysis was made to find out the relationship between independent and dependent variables.

Results revealed that systematic risk has a strong positive association with Profitability. Further, Systematic risk is enhanced by Degree of financial leverage (DFL) and Degree of operating leverage (DOL) in the selected financial institutions. Therefore, they have to pay more attention for tuning systematic risk management techniques. This study would hopefully benefit the academicians, researchers, policy-makers and practitioners of Sri Lanka and other similar countries through exploring the relationship between systematic risk and profitability, and pursuing policy to improve the current status of it.

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