

## **Chapter 11: The determinants of commercial banks' profitability in the South-Eastern Europe region: a system GMM approach**

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- **Abstract**

This study investigates the determinants of banks' profitability using a sample of 169 commercial banks located in seven countries in South-Eastern Europe (SEE). Specifically, this study employs dynamic panel data analysis based on the generalised method of moments (GMM) over a period spanning 2003–2012. By using alternative measures of profitability, such as Return on Assets (ROA) and Return on Equity (ROE), the empirical findings presented in this study suggest that total assets and loan loss provisions usually have more pronounced effects on SEE banks' profitability than other variables. Splitting the sample into small and large banks, this study finds that the determinants of profitability on small banks have a larger effect in comparison to large banks, irrespective of the profitability measures used in the analysis.